

Via email to: AC90.comments@uspto.gov
Attn: James Engel, Senior Legal Advisor
Office of Patent Legal Administration
U.S. Patent & Trademark Office
P.O. Box 1450, Alexandria, VA 22313-1450

Comments on *Changes To Require Identification of Attributable Owner*,
Docket No.: PTO-P-2013-0040; 79 Fed. Reg. 4105 (Jan. 24, 2014)

Executive Summary

Intellectual Ventures appreciates the opportunity to provide comments on the notice of proposed rulemaking titled “Changes To Require Identification of Attributable Owner,” 79 Fed. Reg. 4105 (Jan. 24, 2014). We recognize that abuses and inefficiencies do exist in the US patent system, and we support many of the USPTO’s initiatives focused on increasing patent quality, such as improving examiner training, tightening functional claiming, and encouraging voluntary use of glossaries. We also strongly support giving the USPTO full access to its fees, which we believe is the single best way to increase patent quality and curb abusive patent litigation.

We also support increased transparency, and we have led by example by disclosing over 33,000 patents and applications (approximately 82% of our total portfolio) in a [publicly available list](#). While much of this information is available through various global patent office databases, we decided to assemble the majority of our portfolio in a single place in order to provide our customers and the public a convenient way to review, license, and buy our assets. Excluded from the list are unpublished applications, recently acquired IP, and assets that may be subject to confidentiality arrangements with third parties. Patent owners, like Intellectual Ventures, have legitimate reasons not to reveal all their assets. These reasons include: (1) trade secrecy of unpublished applications, (2) a desire not to reveal one’s technology roadmap, and (3) a desire by third parties to keep contractual relationships confidential.

The “transparency” required by the USPTO’s proposed rules is, however, overly broad and potentially damaging to legitimate business. We are concerned that the proposed rules are unworkable, costly, and disproportionately harmful to small businesses. The rules would likely exceed the USPTO’s rulemaking authority. Moreover, the supposed benefits of these rules do not outweigh the costs. The identity of the owner of record is already on file in the vast majority of cases, and a potential licensee or purchaser can—with minimal effort—find the licensor or seller if desired. Intellectual Ventures’ own robust patent licensing portfolio (40,000 assets in active monetization) is evidence that *willing* buyers/licensees are able to find *willing* sellers/licensors in today’s marketplace. By contrast, the rules do nothing to prevent an infringer’s deliberate ignorance, intentional avoidance, or delay in engaging a patent owner, where the infringer seeks to free-ride off the owner’s invention for as long as possible.

Many of our concerns are echoed in public commentary on the rules by a large and diverse group, including small inventors, solo patent practitioners, the American Intellectual Property Lawyers Association (AIPLA), the Intellectual Property Owners Association (IPO), Novartis, the Council on Government Relations (representing universities and research institutions), the Association for Competitive Technology, and the Inventor Network of the Capital Area.

EXECUTIVE SUMMARY	1
I. ABOUT INTELLECTUAL VENTURES	4
II. THE NOTICE DOES NOT DEMONSTRATE THAT THE RULES ARE NECESSARY	5
A. Rationale 1: Verifying power of attorney	5
B. Rationale 2: Avoiding conflicts of interest	6
C. Rationale 3: Identifying commonly owned prior art and double patenting	6
D. Rationale 4: Post-issuance proceedings	7
E. Rationale 5: Improving the accuracy of public information	7
III. THE PROPOSED RULES ARE OVERBROAD AND UNDULY BURDENSOME	10
A. The definitions of attributable owner are broad and unworkable	10
B. Determination of attributable ownership is beyond the skills of all patent agents and most patent attorneys	13
C. Mandatory disclosure of attributable ownership impacts legitimate privacy and business interests	13
1. Disclosure of confidential information is not necessary for buying, selling or licensing	13
2. Indirect holdings are important for invention development	14
3. Confidential licensing agreements are important for invention development	14
4. Others recognize the role of confidentiality in business	15
5. The rules have no provisions for confidentiality	15
D. The proposed rules potentially conflict with other legal requirements	16
1. The proposed rules conflict with “real party-in-interest” definitions before the Patent Trial and Appeal Board	16
2. Conflict with corporate, competition, and securities laws	17
E. The rules conflict with statute and other branches of government	17
1. The proposed rules exceed USPTO authority under 35 U.S.C. § 2	17
2. The proposed rules also conflict with patent statutes	18
3. The proposed rules conflict with statutes and regulations outside the patent context	18
4. The proposed rules impinge upon the courts	18
5. The proposed rules are inconsistent with trade secrecy policy	19
6. International patent harmonization	19
IV. THE PROPOSED RULES ARE A SIGNIFICANT REGULATORY ACTION UNDER EXECUTIVE ORDER 12866	20
A. Regulations costing more than \$100 million require OMB approval	20
B. The USPTO’s \$43.5 million estimate is based on erroneous assumptions	20
1. The number of patents and applications affected is greater than the USPTO’s estimate	20
2. The Notice underestimates the cost per application/patent	21
a) Determining attributable ownership is more complicated than determining title	22
b) Attributable owner will change more frequently than title	22
c) The harsher penalties raise costs	22
C. Lessons from “small entity status” suggests higher costs	23

D.	Cost per application or patent	23
E.	Total costs estimates	24
F.	Additional considerations under Executive Order 12866.....	25
	1. Effect on state government	25
	2. Disparate impact on small business	25
V.	CONCLUSION.....	26

I. About Intellectual Ventures

Founded in 2000, Intellectual Ventures is a privately-held *invention capital* company that mixes elements of traditional venture capital and private equity in the area of inventions. Like venture capital, part of our business is focused on funding the creation of new ideas. Like private equity, part of our business is focused on investing in existing ideas that may be trapped in distressed companies or are no longer valuable to their current company. In all cases, our focus is on investing in invention as an asset in itself. With more than \$6 billion in committed capital from investors, we have built a market for invention by making invention a profitable activity.

We acquire inventions from our own labs and from a global network of inventors and sellers, and we compile the patents into industry-focused portfolios. We partner with universities, government institutions and research labs to incentivize the process of invention, and create a more liquid market for buying and selling inventions. We engage with companies of all sizes to minimize their exposure to the difference between the invention rights they have and the invention rights they need—and we act as a strategic partner for present and future intellectual property needs. We have several different ways of generating revenue, including licensing our invention portfolio, launching spinout companies, divesting assets, and doing joint ventures.

In public comments on the proposed rules, we have been singled out for our use of hidden entities to buy patents. However, although we own one of the world’s largest and fastest-growing intellectual property portfolios, over 80% of it is publicly listed and available from us at <http://patents.intven.com/#/finder>. We do not reveal unpublished patent applications, recently acquired IP, and assets that are subject to confidentiality arrangements with third parties. This is a standard practice across private industry. We use holding companies to purchase IP assets when our research identifies a promising new technology and when we need to pool the IP necessary to develop and commercialize the technology. We do this so that our technology development roadmap is not blocked by a small number of holdouts. This is common in private industry, and is not limited to patents. Without separate entities, third parties can learn of a business’s plans and frustrate product development. For example, if we identified a new way to make oil from algae that requires purchasing 10 patents, an existing competitor could prevent us from developing the technology by buying one of the patents we need.

Public comments have also implied that we use shell entities to sue, pointing to a few isolated cases that have received media attention. In these cases, the supposed “shell entities” were independent corporations that were not controlled by us, but had purchased patents from us. When a business sells an asset, it typically cannot limit how a buyer uses that asset. In cases where the purchaser is unable to pay the full value of the asset, the seller may agree to a lower price in return for a share of future profits. There is nothing unusual or unethical about these practices. We trade in tens of thousands of patents, and the actions of a small number of purchasers cannot be imputed to us as our general business practice.

Regarding litigation, ***Intellectual Ventures always sues in its own name, and does not sue through the use of shell companies.*** When we file a lawsuit, we do it openly, in our own name, and you can find the information on our website: www.intellectualventures.com/news/legal-updates.

We are devoted to the business of invention, and so we rely on a strong patent system to protect the innovation that our company fosters.

II. The Notice does not demonstrate that the rules are necessary

The Federal Register Notice states that the information required under the proposed rules is necessary to:

1. Ensure that a “power of attorney” is current in each application or proceeding before the Office;
2. Avoid potential conflicts of interest for Office personnel;
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.

We support rules that improve the prosecution of patents, but believe that the stated goals do not justify the overly broad and unduly burdensome rules currently proposed.

A. Rationale 1: Verifying power of attorney

Under 37 C.F.R. § 1.34, a registered practitioner can prosecute a patent application without filing a power of attorney, and only needs a power of attorney for an express abandonment or terminal disclaimer. If a power of attorney is filed, the assertion of power is verified by the USPTO against applicant and/or ownership information of record, without further investigation. Thus, under the current system, a power of attorney is required only in specific situations, and is only checked against the names of the inventors or titleholder.

The identity of the “attributable” owner (beyond named titleholder) is not relevant to verifying the power of attorney. The only possible exception is an exclusive licensee who is also granted the right to prosecute the patent. In that exception, the proposed rules would have no impact – they require identification of an exclusive licensee, but not whether the licensee has the right to prosecute. Thus, knowing that a patent application has been exclusively licensed would not be sufficient to identify the party with the ***right to control prosecution***. Current USPTO rules governing powers of attorney would need to change significantly before the identity of every possible “attributable owner” would become relevant for this purpose. Indeed, the *current* power of attorney rules under the America Invents Act are inconsistent with the proposed rules’ goal of ensuring that power of attorney reflects ownership.

Rule 1.32(b)(4) requires the power of attorney to originate from the applicant *or* owner. This permits a power of attorney to come from an *inventor* even after all rights have been assigned to another.

Accordingly, the proposed rules' demand for "attributable" ownership information is simply irrelevant to verifying the power of attorney.

B. Rationale 2: Avoiding conflicts of interest

We share the USPTO's concern for avoiding conflicts of interest, but we do not believe that the USPTO has demonstrated that the scale of the problem justifies the scope of the proposed rules, or that the current rules are inadequate to avoid conflicts of interest. In general, the courts and Federal agencies, including the USPTO, have managed conflicts of interest without the degree of disclosure required under the proposed rules.

In 1995, the USPTO promulgated 37 C.F.R. § 1.192(c)(1) (now 37 C.F.R. § 41.37(c)(i)), requiring applicants to disclose their "real party in interest" in appeals before the Board of Patent Appeals and Interferences (now the Patent Trials and Appeals Board). The stated purpose of this rule was "so that members of the Board can comply with applicable ethics regulations associated with working on matters in which the member has an interest." 52 Fed. Reg. 14488, 14499 (Mar. 17, 1995).

Question for the USPTO: Since 1995, how many times has a member of the Board needed to recuse himself/herself due to a possible conflict, and how many of those recusals were based on the identity of a real party-in-interest that was *different* from the titleholder?

If the USPTO lacks this information, or if the number of recusals due to a real party-in-interest (as distinct from titleholder) is minimal, then it seems unwarranted to impose an *additional* disclosure requirement beyond what is currently required.

C. Rationale 3: Identifying commonly owned prior art and double patenting

When an Examiner requires additional information to examine a patent application at issue, existing Rule 1.105 provides a mechanism for obtaining precisely such information. The Federal Register Notice does not explain why disclosure of more than the titleholder would be relevant to either 35 U.S.C. § 102(b)(2)(C) or double patenting, or why any requirement cannot be met using existing Rule 1.105.

Current examination practice *presumes* no common ownership, in which case the examiner will issue a prior art rejection. The burden then shifts to the applicant to show common ownership in order to *overcome* the rejection. This scheme has worked for over a decade, under previous 35 U.S.C. § 103(c). The Notice describes differences between § 103(c) and § 102(b)(2)(C), but these differences do not require disclosure of attributable ownership in every single case, and certainly do not require disclosure prior to making a rejection.

With respect to the judicially-created doctrine of double patenting, an applicant already has a duty to disclose ownership information and/or commonly owned applications/patents that may be material to

patentability — irrespective of attributable owner. Moreover, most double patenting rejections arise between applications/patents that have overlapping inventorship, rather than common ownership.

As to filing a terminal disclaimer, it is the applicant who bears the burden of showing common ownership. In that context, there is no requirement to show attributable ownership at the time of filing an application, and certainly not before filing a terminal disclaimer.

Accordingly, the USPTO has not shown that Rationale 3 justifies the proposed rules' expansive demand for "attributable" ownership information.

D. Rationale 4: Post-issuance proceedings

The Inter Partes Review (IPR) and Post Grant Review (PGR) statutes require the *petitioner* – “who is not the owner of a patent” – to identify its real party-in-interest. See 35 U.S.C. §§ 311(a), 312(a)(2), 321(a), 322(a)(2). Nothing in the America Invents Act requires the *patent owner* to identify its real party-in-interest in these IPR and PGR proceedings. Indeed, the Notice does not explain how requiring more information on patent ownership helps to “verify that the *party making a request* for a post-issuance proceeding is a proper party for the proceeding.” 77 Fed. Reg. at 4106 (emphasis added).

Likewise, the Supplemental Examination statute permits a “patent owner” to request Supplemental Examination (35 U.S.C. § 257), and the implementing regulation already provides that “[a] request for supplemental examination of a patent must be filed by the owner(s) of the entire *right, title, and interest* in the patent” (37 C.F.R. § 1.601(a)). Again, the Notice does not explain how further information regarding the “attributable owner,” beyond titleholder, is necessary to comply with the relevant rules and statutes governing Supplemental Examination.

The statute governing Ex Parte Reexamination (35 U.S.C. § 302) explicitly refers to the “*owner or the patent*” and, more specifically, to the “*owner of record of the patent.*” This statute as well does not support a regulatory requirement for disclosing anything more than the identity of the titleholder in patent owner-initiated post-grant proceedings.

Accordingly, the USPTO has not shown that Rationale 4 justifies the proposed rules' expansive demand for “attributable” ownership information.

E. Rationale 5: Improving the accuracy of public information

The final justification offered in the Notice is to help “ensure that the information the Office provides to the public concerning published applications and issued patents is accurate and not misleading.” We support this goal, but at the same time believe that any requirement for information should be closely matched to ensuring that the information is relevant to the public's needs. The Notice has not demonstrated that the current disclosure of title and representative is insufficient for these purposes.

The Notice asserts that attributable ownership would assist in buying, selling, and licensing patents. Similar public comments were made in [Silicon Valley, on March 26, 2014](#), by Daniel Nazer of the Electronic Frontier Foundation, and Julie Samuels of Engine Advocacy. Intellectual Ventures would

support the USPTO in setting up a voluntary licensing database, which can be accomplished without these onerous proposed rules. However, as explained below, we do not see how the proposed rules are necessary to buying, selling, or licensing a patent.

When a third party is interested in licensing a patent or contacting the owner of the patent to begin negotiations, the **current** patent databases provide the contact information of the patent's titleholder and attorney. There is no evidence that this information is insufficient to identify a party with the power to grant a license or sell a patent. We ourselves have not encountered any problem using the current information listing titleholder and representative to review more than 400,000 patents and application over the past 12 years, to purchase more than 70,000 of those assets, of which 40,000 are in active monetization programs. As these numbers demonstrate, there is no systemic problem that prevents willing buyers/licensees from finding willing sellers/licensors in today's patent marketplace.

The Notice also envisions that attributable ownership will be relevant to litigation and curbing abusive patent litigation. We do not see how requiring attributable ownership for all patent applications and patents advances this goal. Not all published applications issue into patents, and only a very small percent of patents are ever litigated. The requirement to disclose attributable owner information is an entirely unnecessary burden for the vast majority of cases. For those patents that are litigated, however, the courts already manage the relevant information and permit confidential information to be submitted under seal.

The Notice also asserts that attributable owner information may have other benefits, such as "providing innovators with information that will allow them to better understand the competitive environment in which they operate." 79 Fed. Reg. at 4108. Public comments on the proposed rules by academics and interest groups also assert that such information permits large scale studies of the patent landscape. However, a generalized interest in information, whose benefit has not been quantified, is not a reason to require all applicants and patent owners to provide the sort of detailed information proposed in the Notice, especially when the cost to provide such information is large. We note that many of those advocating for disclosure of attributable owner do not practice before the USPTO or represent patent owners, and therefore may be unaware of the actual, real-world costs that the proposed rules would entail.

For example, some have argued that the notice function of the patent system is defeated if there are hidden beneficial owners beyond titleholder. However, the *quid pro quo* for receiving a patent is **disclosure of the invention** (i.e., what it is and how to make and use it). There is no precedent, either in law or elsewhere internationally, for requiring broad disclosure of other-than-title ownership interests as a prerequisite for obtaining a patent. In the patent bargain, the public receives the benefit of knowing how to make and use an invention; the patent owner receives the benefit of a time-limited right to exclude.

Echoing this point, Novartis correctly drew a distinction in [its January 25, 2013 submission](#) between two categories of benefits under the proposed rules. The first category related to facilitation of examination

and post-grant proceedings, which Novartis believed were already managed under existing rules or through minor modifications in specific cases. As for the second category, Novartis explained:

“The second category of benefits mentioned in the Notice relates to the role of patents in the marketplace. Taken together, such benefits fall generally in the realm of enhancing the ability of companies such as Novartis to make sound, well-reasoned business decisions in the face of third party patent rights.

“Many of the corporate entities that spoke at the roundtable held at the USPTO on January 11, 2013, argued that accurate ownership information permits companies to determine whether they have freedom to operate in the marketplace. With respect to this second category of benefits, it is important to note that ***the claims of a granted patent determine whether one has freedom to operate, not the identity of the patent owner, ultimate parent corporate entity, or licensee.*** Ownership information may affect whether, how, and perhaps how aggressively some entities choose to proceed once it is determined that third-party patent rights exist, but those are business and strategy decisions that have more to do with private business interests than with helping the public ascertain the state of intellectual property protection in a particular art. ***We question whether it is the proper role of the Patent Office to involve itself in these types of decisions by third parties at the burden and expense of patentees who, as discussed below, often have legitimate business interests in maintaining confidentiality*** (including legal obligations to do so at times) that may conflict with the broader proposed definition of RPI, and could face unreasonably heavy compliance burdens and new sources of uncertainty.”

We agree with Novartis that the ***claims*** define the scope of the public’s freedom to operate, and that the USPTO should not involve itself in private business decisions and strategies where parties have voluntarily chosen to keep their business arrangements confidential.

We also believe that requiring disclosure of large amounts of largely (or entirely) *irrelevant* data on attributable owners may *frustrate* the USPTO’s handling and dissemination of *relevant* data concerning patents. The information that the USPTO *currently* possesses is not readily available and searchable. For example, the USPTO’s current assignment database is not linked to the published application/patent databases and cannot be searched by application number. An assignment that, by its own terms applies to continuing applications, is not automatically indexed by the USPTO against child applications. Instead, the applicant must refile the assignment in each case. By contrast, an application or patent will be published with ownership information provided on the Application Data Sheet or Issue Fee Transmittal, regardless whether that information is consistent with any recorded ownership information. Thus, the USPTO’s current information on titleholder and representative is not cross-linked and may be inconsistent between databases.

As another example, the current USPTO databases also do not index other important information, such as terminal disclaimers. When patents are linked through terminal disclaimers, it affects their term and ownership rights, and is therefore directly relevant to public interest in any one patent. However, this

important information is not readily available. In some contexts, the term of a single patent may require examining the file history of a large number of interlinked patents, and in each case determining the presence of a terminal disclaimer, whether it was accepted, reviewing its terms, and then mapping the interrelationship of the terminal disclaimers and applications. Such a task can take well over an hour.

Accordingly, we recommend that the USPTO provide better access to *existing* information that is useful to the public (e.g., cross-linking assignment, power of attorney, and disclaimer information), before imposing more obligations to disclose additional (and largely irrelevant) ownership information. And as explained above, the USPTO has not shown concrete and quantifiable evidence that willing buyers/licensees are unable to locate willing sellers/licensors in today's patent marketplace. Indeed, Intellectual Ventures' portfolio of 70,000 patent assets (of which 40,000 are in active monetization programs) is evidence that today's patent marketplace is robust and liquid. Clearly, willing buyers and sellers are able to find us, and we are able to find them.

III. The proposed rules are overbroad and unduly burdensome

Any asserted benefit in enacting a rule must be balanced against its costs. As explained above, we believe that there is no substantial justification for the proposed rules. We also believe that the rules are unduly burdensome.

A. The definitions of attributable owner are broad and unworkable

The definition of attributable owner under proposed 37 C.F.R. § 1.271 is *inclusive*, and encompasses multiple different types of owner, including titleholder, licensees, entity with standing, any contractual relationship bearing on ownership, ultimate parent, and hidden beneficial owners. *Each* of these definitions must be reported to the USPTO, at specific times during prosecution and throughout the life of the patent. Compliance with these requirements is not a simple matter and requires consideration of many different areas of law.

For example, 16 C.F.R. § 801.1(a)(3) is a rule promulgated by the Federal Trade Commission to identify "ultimate parent" when analyzing antitrust effect in mergers and commercial activities exceeding a \$75.9M threshold set in 78 Fed. Reg. 3814 (Jan. 23, 2014). A determination under 16 C.F.R. § 801.1(a)(3) requires the expertise of corporate lawyers to analyze the corporate structure and is typically a more difficult and lengthy task than, for example, determination of title ownership.

The rules list standing to sue as an element of attributable ownership. Standing is not normally a requirement for submission to a regulatory agency. Rather, it is the right to be heard by a court, and is a complex legal matter that hinges on the particular interests at issue. The question is ultimately determined by a court. As guidance for complying with "standing" determinations, 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). Analysis under these cases is anything but simple: they list multiple factors and proceed through pages of analysis before reaching any conclusions. Identification of "[a]n entity necessary to be joined in a lawsuit" is similarly complex in the context of exclusive licensing agreements. Similar concerns about the

complexity of determining standing were echoed in the [March 13, 2014 public hearing in Alexandria](#), by representatives of Hewlett-Packard and the Council on Government Relations. For example, HP representative Mr. Scott Pojunas stated, “The question of identifying entities under [Rule 1.271](a)(2) is more complex and ultimately turns on analysis of the terms of an agreement to identify the bundle of rights that has been transferred.”

An ownership interest held by a publicly traded company may necessitate a review of all the shareholders’ relevant interests — which requires an understanding of *securities* and *corporate* law. International ownership interests, which are common in U.S. patents, would require an understanding of *international* corporate law and of the law of the nation(s) in which the ownership interest is a legal resident. Ownership by a trust requires interpretation of the relevant *state laws controlling trusts*. Licenses are, likewise, determined not only by their own terms but through the application of *state laws*. An ownership interest in a patent or application may be shared by a large number of people, governed by multiple different laws, and may change over time in ways that are difficult to track. In public comments, many different examples have been offered that illustrate this complexity.

For example, in [testimony in Silicon Valley on March 26, 2014](#), patent practitioner Brian Schar drew on his experience with garage startups and how they would be affected by the proposed rules. If an inventor moves out of his garage and into an office space, the act of signing a standard lease may give the landlord a security interest in the inventor’s IP. The new rule would therefore require that a *real estate attorney* review the lease, communicate the relevant interest to a patent attorney, who then must determine whether an attributable ownership interest would need to be filed with the USPTO.

Mr. Schar also explained how the proposed rules would *chill investment and licensing* of IP. As to investing, many startups draw from a large pool of investors, including family, friends, trust and venture capitalists, who may not be willing to disclose their interests and would refuse to invest in patented technology if disclosure were a requirement. Regarding licensing, Mr. Schar voiced concern that, aside from chilling licensing, the proposed rules may create *conflicts of interests* between patent owners and licensees. The owner of a licensed patent would be obligated under the proposed rules to disclose the identity of any licensee having a right to enforce the patent. The licensee, however, has no duty or interest to comply with the proposed rules because, by refusing to comply, the licensee may cause the patent/application to go abandoned and then be free to practice the invention without compensating the owner.

Other commenters also stated that the proposed rules would chill investment and licensing activity. These include the Intellectual Property Owners Association, Novartis Corporation, the Inventor Network of the Capital Area, the Association for Competitive Technology (representing mobile app developers), patent practitioner Mr. R. Reams Goodloe, and Mr. Robert Hardy, speaking on behalf of the Council on Government Relations (an association of 189 research universities and affiliated institutes and hospitals).

For example, [Mr. Hardy noted](#) that the proposed rules do not apply to state agencies and therefore may exempt state universities. This exemption would lead to uneven treatment of state and private universities. However, there is no sound policy reason to treat state and private universities differently.

The exception for foreign governments would permit a foreign entity to claim an exemption from disclosure if it is state-owned. Many large corporations are owned by foreign governments. The end result would be that private firms would be required to disclose their corporate structure and interests under the proposed rules, but ***competing state-owned entities (SOEs) would be exempt.***¹ This disparity provides a competitive disadvantage for private corporations, which is particularly disadvantageous to businesses in the United States and other nations with minimal state control over corporations.

Perversely, the USPTO's proposed rules treat foreign SOEs more favorably than privately-owned entities. Question for the USPTO: Has the USPTO consulted with the US Trade Representative (USTR) and/or International Trade Administration (ITA) to ensure that the USPTO's proposed rules are consistent with the [Obama Administration's trade policy](#) of promoting a level playing field for US businesses competing against foreign SOEs?

Other hypotheticals illustrate the complexity of complying with the proposed rules. If an individual invests in or works for a startup whose sole assets are its intellectual property, he/she will often have an ownership interest in the patents/applications. This interest would need to be reported under the proposed rules. This individual's ownership interest would be an asset that can be attached in, e.g., a divorce or malpractice proceeding. Questions for the USPTO: (a) How does the USPTO expect to balance the proposed rules' requirement to report all beneficial interests with the privacy interests of an individual regarding divorce and malpractice? (b) Are ownership interests in a patent reportable if they are held only as a security against?

Attributable ownership is particularly complicated when it interests with the complexities of patent law. We ask the USPTO to explain how the attributable ownership rules are applied in the following examples.

(1) Applicants are typically required to limit their initial claims by electing a single group of claims and/or species within the claims. The non-elected claims are then considered withdrawn, but may be rejoined when the applicant demonstrates that the withdrawn claims should be examined with the elected claims. Examiners can also *sua sponte* rejoin withdrawn claims. The attributable ownership of a patent application might therefore depend on the status of individual claims in an application. Question for the USPTO: Would the USPTO require the identification of attributable ownership when a claim in a patent application is presently ***withdrawn***?

¹ The savings clause "(other than a corporation or unincorporated entity engaged in commerce)" in Proposed Rule 1.271(e) can be easily avoided by a foreign SOE by assigning ownership of the patents/applications to a state-owned "research" institution (i.e., not engaged in commerce). And in any event, the USPTO lacks the means to verify the actual business status of foreign SOEs.

(2) Cancelling or amending a claim may add or remove inventors and/or attributable owners. Under current law, the inventorship can be amended when the claims are in final form. However, under the proposed rules, attributable ownership will need to be tracked for each claim during prosecution. Question for the USPTO: How will the USPTO treat attributable ownership when a party has an interest in a claim that is amended during prosecution or varies according to claim construction (the latter might occur in view of new case law or during litigation/post-grant proceedings)?

(3) Obviousness-type double patenting can be overcome by filing a terminal disclaimer, which requires (a) identical **title** between the two or more patents/applications, and (b) that the patents be enforced together. Identical **title** does not, however, mean identical **attributable ownership**. For example, patents invented at the same company may have different inventors. If the inventors did not assign all their rights to the company (e.g. retain an interest in royalties), they are beneficial owners of the patent. Question for the USPTO: Is the attributable ownership of one patent/application affected by applications or patents linked to it through a terminal disclaimer? Is this linkage dependent on whether the terminal disclaimer is uni-directional or bi-directional?

B. Determination of attributable ownership is beyond the skills of all patent agents and most patent attorneys

As explained above, identification of attributable ownership under the proposed rules is complex legal determination that is beyond the skills and experience of a typical patent attorney. More troubling, **patent agents** would be engaging in the unauthorized practice of law if they undertake an analysis of corporate structure, standing, or other legal definitions that are needed to comply with the proposed rules. Moreover, **patent annuity payment services** that handle maintenance fees are not capable of making the corporate disclosure certifications required under the proposed rules.

The end result is that the practice of patent law before the USPTO will require a suite of additional legal experts, which will greatly increase the cost of obtaining and maintaining a patent. These costs will be more easily managed by large corporations, who typically have internal corporate compliance departments and a variety of in-house and outside counsel, but will be especially burdensome for solo inventors and small entities who lack these resources.

C. Mandatory disclosure of attributable ownership impacts legitimate privacy and business interests

1. Disclosure of confidential information is not necessary for buying, selling or licensing

As explained above, the identity of attributable owner is not necessary for buying, selling or licensing of patents. Intellectual Ventures has reviewed hundreds of thousands of patents and patent applications, and purchased more than 70,000 of those assets, using the assignment and correspondence information *currently* of record at the USPTO. Moreover, we have found that the market for patents is quite robust. The USPTO has cited **no** specific instance (much less quantified the instances) in which currently

available titleholder and counsel-of-record information was insufficient for a willing buyer/licensee to find a willing seller/licensor.

In its public comments on the USPTO's November 2012 proposal, the [IPO stated](#) that the USPTO had provided "no statistics or analysis of failures of applicants and owners to record ownership information that might show there is a problem with the *current* system that adversely affects the public interest." In the intervening years, the USPTO has not provided this information. In the absence of USPTO's findings, and in view of the comments by those with real-world experience with the patent system such as IPO, AIPLA, Novartis and Intellectual Ventures, any requirement for patent owners to disclose **additional** information, beyond titleholder and power of attorney, is not warranted by objective facts.

2. Indirect holdings are important for invention development

Indirect holdings are common in modern corporate practice and serve legitimate functions. We invest substantial time and effort researching and forecasting trends in technology, often as far as ten years out, and this research guides our patent investment decisions. Due to our prominent role in the intellectual property marketplace, the mere fact that Intellectual Ventures has begun to acquire patents and is seeking patent sellers in particular technology areas would reveal the very technologies that our research has indicated are most promising. Such disclosure would result in other intellectual property investors—many of whom are our competitors in the marketplace—obtaining the benefits of our research, without compensating us. Beyond the simple inequity of that outcome, it would also serve to distort the market as competitors follow the lead of Intellectual Ventures or other innovators in the marketplace. Consequently, to preserve our competitive position in the invention marketplace, and to ensure a reward for our costly investments, we have a legitimate, compelling interest in preventing our competitors from knowing our investment patterns and technology roadmaps. For that reason, we frequently choose not to *invest* in our own name; however, when we file a *lawsuit*, we do it openly and in our own name. The Proposed Rules would effectively preclude that practice, thereby reducing investment incentives and, in due course, reducing investment in intellectual property.

The USPTO has failed to take into account, much less *quantify*, the economic cost due to this loss of incentive and investment.

3. Confidential licensing agreements are important for invention development

Licensing information will similarly reveal corporate strategy and investment patterns. For example, a company may invest considerable time and resources in analyzing whether a promising drug is worth developing, and will then purchase or obtain licenses for the relevant IP before further investing time and money in drug development. The innovator company recoups its investment, in part, by being the first with a new type of therapy. However, reporting a purchase or license alerts a competitor to the relevance of a certain area of research and weakens the company's first-mover advantage. Importantly, a competitor may purchase patents solely to block the innovator company from developing and commercializing the new drug, or force the innovator to pay a large premium to obtain a license. Raising the costs for innovators may, therefore, inhibit innovation, and lead to fewer new products.

The USPTO has failed to take into account, much less *quantify*, the economic cost due (a) the loss of first-mover advantage and (b) the increase in blocking patents.

4. Others recognize the role of confidentiality in business

Intellectual Ventures' position on confidentiality is echoed in public comments by individuals, trade groups and corporations that, like us, are directly involved in the business of invention and invention development. These include the American Intellectual Property Lawyers Association, the Intellectual Property Owners Association, Novartis, the Council on Government Relations, the Association for Competitive Technology, the Inventor Network of the Capital Area, and solo patent practitioners.

[Novartis's January 25, 2013 submission](#) to the USPTO noted that the proposed rules do not strike an appropriate balance between relevant interests:

“A third party's desire to know ownership details for a patent is strictly a business consideration, and should not outweigh the equally compelling business interests of the licensees and patentees/licensors, who value confidentiality for certain negotiations and business ventures. . . the competing business interests of third parties desiring disclosure of exclusive licensees should not outweigh those of the patentees whose research and licensing efforts drive innovation.”

Likewise, the [IPO's January 29, 2013 submission](#) to the USPTO noted that:

“The Federal Register also discounts rights holders' legitimate business interests in protecting the confidential nature of ownership and license information. Applicants may not want competitors to know whether an application has been licensed, or to whom. Entities may not want competitors to know that they have transferred or acquired ownership interests in specific patent applications or patents. For example, an assignee may not want others to be aware of its development of technology in a certain area, or its preparations for a new product launch. A requirement for regular identifications of RPI information should be weighed against the potential chilling effect of such identifications on disclosure of innovations and patenting activity.”

We agree with these comments. The USPTO has failed to take into account, much less *quantify*, the economic costs of lost licensing deals where otherwise willing licensors and licensees have decided not to consummate a deal because they do not want this information made public.

5. The rules have no provisions for confidentiality

Proposed Rule 1.271 incorporates disclosure requirements from other areas of law. Many of those disclosure requirements are, however, part of a larger legal scheme that *additionally* provides for confidentiality to mitigate the damage that may be caused by public disclosure. The proposed rules, however, have no confidentiality provisions. Indeed, the purpose of the proposed rules is to achieve full public disclosure. We believe that the disclosure requirements from other contexts cannot be separated

from the purpose of the disclosure in those contexts, nor separated from the provisions protecting confidentiality and otherwise minimizing the negative impact of public disclosure.

For example, the FTC maintains in confidence the identity of the “ultimate parent” submitted under 16 C.F.R. § 801.1(a)(3), and the FTC also offers confidential advice on its application of § 801.1(a)(3) to particular facts. The USPTO’s proposed rules, by contrast, provide no such advice, nor would the information submitted to the USPTO be kept confidential.

Various banking and securities laws are tailored to provide only the information necessary to make a specific determination and otherwise maintain the confidentiality of the collected information. For example the SEC guidance on disclosure of material information recognizes that information may be kept confidential because “***Sometimes disclosure of information required by the regulations can adversely affect a company’s business and financial condition because of the competitive harm that could result from the disclosure.***” U.S. Securities and Exchange Commission, “Confidential Treatment Requests,” (Feb. 28, 1997) www.sec.gov/interps/legal/slbcf1r.htm. By contrast, the USPTO’s notice of proposed rulemaking has not even acknowledged the possibility of competitive harm, much less provided a mechanism to submit information under seal.

The USPTO’s proposed rules would require public disclosure of information contained in confidential agreements, including agreements that are sealed by order of the courts, such as covenants not to sue, licensing agreements, divorce settlements, and the like. We are concerned that forced disclosure of such confidential agreements would make it more difficult to settle litigations. Courts have long recognized that parties are more willing to settle if confidentiality can be guaranteed for certain aspects of their agreements, particularly where sensitive competitive information is at stake. As such, forcing disclosure would remove that incentive to settle and thereby prolong litigation.

The USPTO has failed to consider less burdensome and less harmful alternatives, such as permitting confidential information to be submitted under seal, as the FTC and SEC permit.

D. The proposed rules potentially conflict with other legal requirements

We are concerned that compliance with the proposed rules is inconsistent with other legal requirements.

1. The proposed rules conflict with “real party-in-interest” definitions before the Patent Trial and Appeal Board

The proposed definition of attributable owner would conflict with the definition of real party-in-interest and privy applied by the PTAB, as set forth in Office Patent Trial Practice Guide, 77 Fed. Reg. 48756, 48759-60 (Aug. 14, 2012) (providing guidance on the meaning of “real party-in-interest” and “privy”). Unlike the present rule, the PTAB’s regulations and guidance flow from specific provisions in the AIA which contain the words “real party in interest” and “privy.” *See, e.g.*, 35 U.S.C. §§ 312(e) and 325(e). Moreover, the existence of conflicting definitions, within the same agency, creates problems. For

example, a third party may argue that inconsistent reporting of real party-in-interest versus attributable owner is evidence of inequitable conduct.

2. Conflict with corporate, competition, and securities laws

As mentioned above, information submitted to the FTC pursuant to 16 C.F.R. 801.1(a)(3) is kept *confidential*, but the attributable ownership rules require open disclosure. The corporate, securities, and banking laws have stringent requirements for disclosure, but those requirements carefully match the purpose of the legislation. For example, to ensure the function of publically traded stock markets, the SEC is authorized by law to require disclosure of any *material information* from a publically-traded company. Yet even the SEC recognizes that some information may be kept confidential. See www.sec.gov/interps/legal/slbcf1r.htm. The USPTO's proposed rules therefore force a standard of disclosure that is inconsistent with requirements before other regulators.

Patent owners are also concerned that business partners, with whom they have entered into contractual agreements with a reasonable expectation of confidentiality, may assert a violation of state contract law if this information is publicly disclosed to the USPTO. As [Novartis noted in its prior comments](#), "In a great many patent licenses, confidentiality is expressly required by the agreement between the parties: this demonstrates that the patentees and licensees often value confidentiality, and it is not clear whether savings clauses in existing licenses that allow disclosure 'when require by a court or law' would authorize disclosure based on a rule from the Office." Likewise compliance with the USPTO's proposed rules may conflict with a patent owner's requirement to abide by confidentiality provisions ordered by a court.

Question for the USPTO: Does the USPTO believe that its proposed rules authorize a party to freely disclose information that otherwise cannot be disclosed due to a private contract or judicial protective order?

E. The rules conflict with statute and other branches of government

We believe that the proposed rules, on their own, conflict with statutes and other branches of government.

1. The proposed rules exceed USPTO authority under 35 U.S.C. § 2

In the Notice, the USPTO asserts that 35 U.S.C. § 2 authorizes the agency to promulgate the proposed rules. However, 35 U.S.C. § 2 only permits rules which "govern the conduct of proceedings within the Office," and does not give the PTO authority to enact substantive rules or rules that are contrary to statute. The proposed rules, however, create a substantial new requirement for patentability that exceeds the rule-making power of the USPTO, and is contrary to statute.

The Patent Act does not give the USPTO any substantive authority to *require* the information sought under the proposed rules. Assignment of title is covered by 35 U.S.C. § 261, which *permits* assignment and recordation. There is no *requirement* to disclose even the titleholder, let alone other "attributable" owners. Other patent statutes that require disclosure of information require only *specific* information for a *specific* purpose that is closely related to the statute, such as provision of a certified copy to

demonstrate at least one common invention to claim a right to priority under 35 U.S.C. § 119. The fact that the proposed rules contemplate **abandonment** of the patent for failure to provide the required information merely underscores that the rules are substantive in nature, and not merely procedural.

2. The proposed rules also conflict with patent statutes

Proposed Rule 1.273 requires disclosure of the attributable owner for each application under 35 U.S.C. § 111, international application under 35 U.S.C. § 371, or reissue application under 35 U.S.C. § 371. None of 35 U.S.C. §§ 111, 251 or 371 contain a requirement for disclosing the attributable owner, yet the proposed rules prescribe abandonment of the application for failure to disclose the attributable owner. As such, the proposed rules create a new substantive requirement for obtaining a patent, and threaten to take away the right to a patent under 35 U.S.C. §§ 111, 251 and 371.

Likewise, the proposed rules require disclosure of the attributable owner during the pendency of the application (1.275), at allowance (1.277), payment of maintenance fee (1.381), for any PTAB proceeding (1.383), and at supplemental reexamination and reexamination (1.385) Failure to comply with Rules 1.275 and 1.277 result in *abandonment*. Although Rules 1.381, 1.383, and 1.385 do not specify the penalty for non-compliance, compliance is mandatory (“must”) and any third party seeking to void the patent would readily argue that the patent should lapse/be unenforceable for failure to comply with Rules 1.381, 1.383, and 1.385. Thus, the proposed rules create a harsh penalty, yet there is no requirement in the Patent Act or AIA for disclosing attributable owner at any of these stages of prosecution.

Under 35 U.S.C. § 135(e), parties to a derivation proceeding may settle, and “the agreement or understanding *shall* be treated as business confidential information, *shall* be kept separate from the file of the involved patents or applications, and *shall* be made available only to Government agencies on written request, or to any person on a showing of good cause.” A requirement to disclose any licensing terms that are included in a settlement agreement would directly conflict with the mandatory language of § 135(e).

3. The proposed rules conflict with statutes and regulations outside the patent context

The proposed rules expressly require disclosure of information under FTC’s rule 16 C.F.R. § 801.1(a)(3), and implicitly require disclosure of information that is submitted to the SEC. Yet both the FTC and SEC provide for confidential disclosures – not public disclosures. The information required by the SEC and FTC is also closely related to their roles in policing markets and competition, respectively. The USPTO’s proposed rules are not authorized by statute and are not necessary or closely related to the core functions of the USPTO, as explained above.

4. The proposed rules impinge upon the courts

The requirement to publicly disclose information that has been sealed interferes with long-standing practices of the courts. The rules would interfere with the courts’ authority to permit settlement agreements to be submitted under seal – a tool that courts have long used to encourage settlements.

5. The proposed rules are inconsistent with trade secrecy policy

The proposed rules would require patent owners to reveal confidential business information, including licensing information. Supporters of the proposed rules, such as [Charles Duan of Public Knowledge](#), view such information as “facilitating patent landscape research” by letting competitors understand “what other competitors are out there, what they’re filing on,” because “knowing that sort information can be really useful to business.” Of course, foreign competitors would also find this confidential business information very useful. Yet at the same time, these foreign state-owned entities (SOEs) would be exempt from compliance with the rules. Thus, the USPTO’s proposed rules act as a one-way information flow to foreign SOEs, to the detriment of privately owned businesses. The proposed rules are therefore contrary to recent efforts by the Administration to tighten trade secrecy laws in order to address complaints that foreign nations and corporations are stealing US corporate trade secrets. See “Administration Strategy on Mitigating the Theft of U.S. Trade Secrets” (Feb. 20, 2013) (“Trade secret theft threatens American businesses, undermines national security, and places the security of the U.S. economy in jeopardy. These acts also diminish U.S. export prospects around the globe and put American jobs at risk.”)

http://www.whitehouse.gov/sites/default/files/omb/IPEC/admin_strategy_on_mitigating_the_theft_of_u.s._trade_secrets.pdf.

In addition, the Supreme Court has ruled that an agency’s unauthorized disclosure of confidential business information may constitute a “taking” under the Fifth Amendment for which it must compensate the owner. See *Ruckelshaus v. Monsanto Co.*, 467 U.S. 986, 1001-04 (1984) (holding that a trade secret is a property right “protected by the Taking Clause of the Fifth Amendment”). Moreover, the unauthorized release of confidential information by a Federal employee is a criminal offense under the Trade Secrets Act (18 U.S.C. § 1905). Therefore, even if the USPTO required confidential information to be submitted under seal, the USPTO would risk civil and criminal liability if such information was improperly disclosed or used by a USPTO employee.

6. International patent harmonization

The proposed rules would add a significant new requirement on patent prosecution that is not found in other patent offices. This unilateral move to impose requirements above and beyond what other countries require conflicts with the USPTO’s goal of “global patent harmonization,” to which the USPTO says it is committed through its membership in the IP5, the Trilateral Offices, and the Tegernsee Group.

Question for the USPTO: Have the IP5, Trilateral Offices, or Tegernsee Group undertaken a study of what “attributable owner” information is required to be disclosed during prosecution before their patent offices? Have those organizations decided on a single requirement that should be adopted worldwide?

IV. The proposed rules are a significant regulatory action under Executive Order 12866

A. Regulations costing more than \$100 million require OMB approval

Executive Order 12866 requires the Office of Management and Budget to review any “significant regulatory action,” defined as a regulation having “an annual effect on the economy of **\$100 million** or more or adversely affect in a material way the economy, a sector of the economy, productivity, competition, jobs, State, local, or tribal governments or communities.” As explained below, we believe that the proposed rules are likely to far exceed the \$100 million threshold during the first year.

B. The USPTO’s \$43.5 million estimate is based on erroneous assumptions

The USPTO estimates that compliance with the proposed rules will cost only \$43.5 million per year. As explained below, the cost estimate are based on an unfounded assumption that attributable ownership is equivalent to titleholder, undercounts the number of patents and applications affected, and underestimates the compliance cost per patent.

1. The number of patents and applications affected is greater than the USPTO’s estimate

The Notice bases its cost calculations on an estimate that 1,115,000 patents and applications would be affected by the proposed rules. There appear to be four errors in the USPTO’s estimates.

First, of the 1,249,000 pending applications today, the proposed rules assume that only 4% of applications (i.e., 50,000) per year will need changes in attributable ownership, based on the rate of changes in assignment. For reasons explained below, we believe that assignment is not an accurate model for attributable ownership, which will change much more frequently than assignments.

Second, and more importantly, the Notice overlooks that, in the first year, all 1,249,000 pending applications will require a determination of attributable ownership. Rule 1.273 states that “[t]he attributable owner as defined in § 1.271 must be identified in each application under 35 U.S.C. § 111(a), including a reissue application, and in each international application that commenced the national stage under 35 U.S.C. §§ 371(b) or (f).” It does not state that information on the attributable owner is only required if it changes, or at the initial filing. It therefore applies to all 1,249,000 currently pending applications. ***The Notice does not account for all 1,249,000 pending applications in the first year*** and therefore significantly undercounts the number of applications/patents affected.

Third, as shown in Table 1 below, the number of patents and applications affected by the rules, as calculated by the Federal Register Notice, do not agree with the estimates from the USPTO’s [2013 Performance and Accountability Report](#).

Finally, the Notice does not account for growth in filings each year, which has averaged over 5% annually in the past decade, according to the USPTO’s [2013 Performance and Accountability Report](#). Many PTAB proceedings are new, and it is reasonable to assume that they will grow at an even faster rate.

Accordingly, we estimate that the number of affected patents and applications will be greater than the PTO estimates: approximately 2.5 million in the first year, and over 1.2 million per year thereafter. These numbers are minimum estimates and do not include the likelihood that attributable ownership will change at far more than 4%.

Table 1: Number of Affected Patents and Applications

	Type	Fed Reg	PTO 2013 Annual Report	Comment
1	Applications/yr	437,000	565,000	The PTO report is preliminary for 2013, but even the established numbers for 2012 are much higher than the estimates in the FR.
2	Pending applications	50,000	50,000 One time 1,249,000 in first year	PTO estimates that only 4% will need new attributable ownership information, based on frequency of changes to assignment. But the PTO overlooks a requirement to determine attributable ownership in year one for all pending applications.
3	Issue fees	296,000	267,000	Underestimates growth
4	Maintenance fees	329,000	349,000	Underestimates growth
5	PTAB proceedings	3000	3000	Underestimates growth
	Total responses	1,115,000	Y1: 2,483,000 Y2: 1,296,000 Y3: 1,360,000	Y1: 2,483,000 (1,234,000 patents and applications + one time burden of 1,249,000 for pending applications) Y2+: 1,234,000 at 5% annual growth

2. The Notice underestimates the cost per application/patent

According to pages 4114-4117 of the Notice, the USPTO has modeled the cost per submission and the frequency of changes per patent/application on the USPTO’s assignment database, which records title in patents and patent applications. This assumes that “attributable ownership” is equivalent to title. This assumption is wrong for several reasons.

a) Determining attributable ownership is more complicated than determining title

The proposed rules define attributable owner as *including* title, but also includes parties with standing to enforce the patent (including exclusive licensees), ultimate parent entities as defined in 16 C.F.R. § 801.1(a)(3), and hidden beneficial owners. Obviously, a requirement to report attributable ownership that includes title, but goes far beyond it, *must* be more burdensome than a requirement to report title alone. The current determination and recordation of title is usually a very simple matter, based simply on the plain terms of an assignment agreement.

By contrast, determining attributable ownership will be more complex and expensive because it will require interpretation of state laws governing corporations and trusts, federal securities law, and even international laws of corporate structure and licensing. Determining the “ultimate parent” under 16 C.F.R. § 801.1(a)(3) is typically a matter of practice before the Federal Trade Commission, and is beyond the usual practice of patent lawyers (and entirely beyond the lawful practice of patent agents). The relative interests of different parties may change over time, based on complex agreements and subsequent investments. The proposed rules will require the expertise of attorneys from diverse areas of law, far outside the scope of patent practice.

Patent agents would be engaging in the unauthorized practice of law if they made a certification required by the USPTO’s rules. Patent annuity payment services that handle maintenance fees are not capable of making these corporate disclosure certifications. All of these requirements will significantly increase the cost of prosecuting and maintaining patents.

b) Attributable owner will change more frequently than title

According to the Notice, assignments are changed in only 4% of applications and 3% of patents. The USPTO assumes that attributable ownership will change at the same rate. However, attributable ownership is far more expansive than title, and therefore will change more frequently than title. Ongoing licenses, liens on title, or interests in a corporation holding title can change frequently. A corporate reorganization may change the identity of the “ultimate parent” but not the titleholder subsidiary. During prosecution, a change in claim language might affect the terms of a license, or the relative interests of different inventors. It is therefore reasonable to assume that the estimated number of applications and patents affected by the proposed rules will be far higher than 4% per year.

c) The harsher penalties raise costs

The USPTO’s current assignment system is entirely voluntary. The cost of failure to record an assignment is that an adverse assignment is deemed void against a subsequent *bona fide* purchaser. By contrast, failure to properly identify the attributable owner leads to **abandonment**. As a result, attributable ownership might be asserted as a new basis for inequitable conduct. Attorneys would be at increased risk for malpractice and disbarment. We are concerned that the proposed rules do not account for the fact that the gravity of the penalty will require much greater diligence and inquiry by practitioners, and will therefore significantly increase the cost of patent prosecution.

C. Lessons from “small entity status” suggests higher costs

As explained above, assignment of title is not an appropriate model for estimating the costs of compliance with the proposed attributable ownership rules. A better (albeit imperfect) model is the determination of “small entity” status — an idea raised by the Intellectual Property Owners Association (IPO) in January 23, 2012. Under the “small entity” rules, an individual, nonprofit, or small business (e.g. less than 500 employees), who has not licensed the patent or application to a large entity, can obtain “small entity” status and a 50% reduction in most fees. This benefit is worth at least several hundred dollars during prosecution, and several thousand dollars over the life of a patent. Small entity status must be determined at the filing of a patent, and at payment of the issue fee and maintenance fees. However, fraudulent assertion of small entity status may lead to unenforceability of the patent.

Despite the clear economic benefit to the patent owner, the USPTO itself has recognized that the cost of investigating entitlement to claim small entity status, for many applicants, “**may outweigh the benefit of claiming small entity status.**” 65 Fed. Reg. 54604, 54613 (Sep. 8, 2000). According to the USPTO’s own MPEP:

“It should be appreciated that the costs incurred in appropriately conducting the initial and subsequent investigations may outweigh the benefit of claiming small entity status. For some applicants ***it may be desirable to file as a non-small entity (by not filing a written assertion of small entity status and by submitting non-small entity fees) rather than undertaking the appropriate investigations which may be both difficult and time-consuming*** and which may be cost effective only where several applications are involved.”

[MPEP § 509.VI](#) (emphasis added).

It follows that patent applicants estimate that the risk-adjusted costs of determining small entity status exceeds the benefits of several hundred dollars. If the relatively simple determination of small entity status is estimated to cost several hundred dollars, one can reasonably assume that the much more complicated determination of “attributable owner” would cost even more.

D. Cost per application or patent

The Notice estimates that 0.1 hours is required to determine and record attributable ownership for each of the 1,115,000 applications and patents. At AIPLA’s average billing rate of \$389/hour, each of these tasks costs \$39 per application. The Notice further assumes that only 200 patents would go abandoned and would require approximately 1 hour to petition against the abandonment. Based on these assumptions, the USPTO estimates a total burden of 111,810 hours, for a total cost of \$43.5 million.

The Notice also states an estimate of \$100 or less per determination, and that this was derived from public comments on the proposed rules. However, the [AIPLA’s public comments of January 25, 2013](#) estimated \$100 **as the minimum cost**:

“The proposed system of continuously monitoring, filing, and updating RPI information at numerous points during prosecution, and post grant, would create a tremendous burden of cost and time for all applicants. We estimate the cost of services for investigating the RPI of a pending application or issued patent and filing a confirmation that the information is correct, would be at **least \$100 and may be several times that amount**. The suggested changes require a practitioner to carry out an RPI inquiry at least three times during patent prosecution of every patent application, resulting in an **additional cost of between \$300 and \$1,000 per application.**”

Based on the cost-benefits analysis for small entity status, the complexity of determining attributable owner, and the testimony of patent practitioners, an estimate of **\$1000** is not unreasonable.

Unfortunately, the USPTO appears to have cherry-picked the AIPLA’s estimates and improperly ignored that AIPLA actually estimated “**at least \$100**” and “**several times that amount**,” including “**an additional cost between \$300 and \$1,000 per application**”.

E. Total costs estimates

The following table shows the total estimated costs per year, based on different numbers of patents and applications affected, and different estimates of compliance costs. The first column is the estimated burden per application. The second column is the estimated cost based on the numbers published in the Notice, multiplied by a given burden per application/patent. Columns 3-5 give the estimates for years 1-3 based on estimated numbers of applications and patents affected from the USPTO’s annual report.

Table 2: Cost Estimates

Cost per application	Cost in \$USD (millions) in a given year			
	Fed Reg.*	Year1‡	Year2‡	Year3‡
\$39*	43.5	96.8	50.5	53.0
\$100*+	111.5	248.3	129.6	136.0
\$300	334.5	1,044.9	388.8	408.0
\$1000	1,115	2,483	1,296	1,360

* Estimates in Fed Register

+ Estimates from AIPLA submission 1/28/2013

‡Based on numbers derived from the USPTO accountability report

In summary, we believe that the USPTO’s \$43.6 million estimate relies on several assumptions that greatly underestimate (1) the number of affected applications and patents per year and (2) the cost of compliance per application and patent. Based on the above analysis, **the cost of compliance with the proposed rules is very likely to exceed \$100 million dollars**. As a result, the proposed rules trigger heightened scrutiny under Executive Order 12866.

F. Additional considerations under Executive Order 12866

1. Effect on state government

Under Executive Order 12866(1)(b)(9) “Each agency shall assess the effects of Federal regulations on State, local, and tribal governments, including specifically the availability of resources to carry out those mandates, and seek to minimize those burdens that uniquely or significantly affect such governmental entities, consistent with achieving regulatory objectives.” Although the proposed rules do not require disclosure of interests held by state governments the rules do not exempt disclosure of licenses **between the state governments and a private entity**. Because failure to report the licensing interest would lead to the abandonment of a patent or patent application, the technology transfer and licensing departments at state institutions will be required to consider and document the licenses and other interests in their patent portfolio. Given the amount of research that occurs in state universities, for example, the attributable ownership rules could have a significant impact on state governments and the US economy as a whole. These considerations are not addressed in the proposed rules.

2. Disparate impact on small business

Under Executive Order 12866(1)(b)(11) “Each agency shall tailor its regulations to impose the least burden on society, including individuals, businesses of differing sizes, and other entities (including small communities and governmental entities)” and (4)(d) requires consideration of “streamlined regulatory approaches for small businesses and other entities.” This is consistent with other regulatory requirement to the minimize impact on small entities, such as the requirement under 5 U.S.C. § 603(c) to consider alternatives that “minimize any significant economic impact of the proposed rule on small entities.”

The USPTO uses assignments as the model for calculating the effect of the proposed attributable ownership rules on small business. For reasons explained above, title and attributable ownership are not equivalent. The complexity of the attributable ownership rules will impose compliance costs that will be much greater, per patent, for small businesses than for large entities. Specifically, small businesses usually (a) lack an established in-house corporate legal department ready to handle additional compliance work and (b) have complex financing structures based on multiple small sources of investments from friends, family, angel investors, venture capitalists, trusts and estates. The proposed rules will thus have a greater impact, per patent, on small businesses than on large businesses.

In contrast to the USPTO’s proposed rules, the FTC’s rule 16 C.F.R. § 801 was approved by OMB in part because the rule applies only when a merger or transaction exceeds a certain size-of-person and/or size-of-transaction threshold (\$75.9M size-of-transaction threshold in 2014), which excludes most small business. See *Premerger Notification; Reporting and Waiting Period Requirements*, 61 Fed. Reg. 13666, 13667 (Mar. 28, 1996) (“None of the amendments expands the coverage of the premerger notification rules in a way that would affect small business.”). The USPTO’s proposed rules incorporate 16 C.F.R. § 801 into the definition of “attributable owner” but would apply to everyone, including small business.

Recent public hearings reflect the concerns of disparate effects on small business. Whereas support for the rules has come from large IT firms, as well as academics and interest groups that do not practice

before the USPTO, opposition to the rules has come from small practitioners, small businesses, and venture capital organizations, all of whom understand first-hand the practical realities and complexities of patent prosecution before the USPTO.

V. Conclusion

Intellectual Ventures relies upon a robust and efficient patent system. Our business depends on owning and monetizing high-quality assets. We support the USPTO's efforts to improve the quality and timeliness of patent prosecution and to provide relevant information (e.g., titleholder, powers of attorney, disclaimers) to examiners and to the public. However, we do not support these particular proposed rules because we believe that they are too costly and burdensome, conflict with various statutes, and do not solve any actual problems. Indeed, Intellectual Ventures' robust patent licensing portfolio is evidence that willing buyers/licensees are able to find willing sellers/licensors.

We recommend that the USPTO act within its current legal authority to improve the management and dissemination of information that it already possesses concerning titleholder, power of attorney, and terminal disclaimers. Cross-linking and modernizing the USPTO's *existing* databases is badly needed. We also recommend that the USPTO convene an experts group to study solutions to the alleged problems identified in the Notice, including working with the USPTO's international partners to ensure that the USPTO's efforts promote, rather than impede, patent harmonization efforts through the IP5, Trilateral Offices, and Tegernsee Group.

Phyllis T. Turner-Brim

Vice President, Chief IP Counsel
USPTO Reg. No. 39,864
pturnerbrim@intven.com
3150 139th Ave SE
Bellevue, Washington 98005
USA

Russ Merbeth

Chief Policy Counsel
rmerbeth@intven.com
1100 H Street, NW
Suite 900
Washington, DC 20005
USA