

UNITED STATES PATENT AND TRADEMARK OFFICE

ATTRIBUTABLE OWNERSHIP PUBLIC HEARING

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

2 MS. GONGOLA: I will now call our formal
3 hearing portion of this morning's program. As I
4 call your name to give your testimony, I invite
5 you to please use the staircase on the left-hand
6 side of the podium to take the witness stand, if
7 you will.

8 Our first witness today is R. Reams
9 Goodloe, who is a solo practitioner from Seattle,
10 Washington. Mr. Goodloe.

11 MR. GOODLOE: Thank you. If you don't
12 remember anything else that I say today, take one
13 thing with you: Civil asset forfeiture is a harsh
14 remedy. I'll repeat that. Civil asset forfeiture
15 is a harsh remedy. I'll come back to that.

16 Basically I wanted to cover five things
17 from the heart. I don't speak much. I'm going to
18 tell you some things I encounter in practice.

19 I've been admitted to practice as an
20 attorney before the USPTO since 1986. If you
21 believe the figures of Dennis Crouch, and I have
22 no reason to disbelieve them, I'm one of less than

1 5 percent of the bar who's been practicing between
2 25 and 30 years. I've earned these gray hairs
3 fair and square. I want to relate to you a few
4 stories, real practice, how the impact of this
5 rule would affect people I deal with.

6 In a way, I've got an interesting view
7 of the world because I've had opportunities and
8 have spent some of my career practicing in and for
9 some of the biggest companies in the country. You
10 would recognize them. Their products have wings
11 or propel products with wings. Some of my
12 independent inventors have patented processes
13 which touch every single electronic device any of
14 you are carrying today.

15 I have had multiple patents litigated.
16 I've had occasion to be in the witness chair in
17 Markman hearings, give testimony in depositions.
18 I have currently multiple patents in litigation in
19 various courts. So I have some perspective on how
20 this works.

21 I want you to remember five things.
22 Some of these rules as proposed are illegal. The

1 Patent Office does not have the power. Some of
2 these proposed rules are impossible for current
3 people to comply with and still comply with
4 existing contracts by which they are currently
5 bound. Some of these proposed rules are totally
6 impractical. I'll come back to that; it's a very
7 important point. Many of them are totally
8 inequitable for the small, independent inventor.
9 This whole thing was done without any vision to
10 them; I'll come back to that. Many of those
11 provisions are totally illogical.

12 Frankly, you'd put DGSE or CSIS out of
13 business. They would have to send some of their
14 foreign agents back home to do other things.
15 You'll give them what they need for competitive
16 intelligence on a silver platter. It is
17 absolutely insane.

18 Five things: Parts of it are illegal;
19 parts of it are impossible for people to comply
20 with; many of it is impractical; much of it is
21 inequitable; and the basic philosophy is illogical
22 in part.

1 Now, that said, I will tell you I have
2 been to Munich at opposition hearings. I have
3 been to Beijing with my clients before the Patent
4 Reexamination Board. Those countries, you don't
5 know who you're up against. They have no
6 requirement for real party and interest. Is that
7 unfair? Oh, you bet. Would I like to know
8 something? Yeah, probably, it's American. We
9 like to level the playing field. What happened to
10 harmonization? Has that been forgotten here? You
11 pass this rule, I guarantee you there'll be a WTO
12 action. You think the French are going to sit
13 still and reveal everything they know? Not a
14 chance.

15 You put people like me, independent
16 practitioners, in the middle, you ask us to find
17 data that our clients will be reluctant or maybe
18 they just won't give you. And we'll have to
19 decide are we in a position that we must withdraw
20 because of ethical rules, because of what we have
21 learned; or do we just take what we're given, pass
22 it along; or maybe we check the box, they haven't

1 given us anything, they refuse to give anything,
2 we have no reason that we must withdraw into the
3 rules? It's real problematic.

4 Okay, let's go back to the illegal.
5 Civil asset forfeiture is a harsh remedy. Black's
6 Law Dictionary, which some of you who went to law
7 school might be familiar with, defines forfeiture
8 as, "A divestiture of specific property without
9 compensation and, more specifically, the loss of
10 some property right as a penalty for an illegal
11 act." Why is a patent going to be deemed
12 abandoned or found deemed abandoned or invalid or
13 unenforceable in litigation because we didn't send
14 in a letter that Joe Blow's uncle gave him money
15 and is entitled to 51 percent of the funding of
16 this new venture? That is a very harsh remedy.

17 I think it's still the law of the land,
18 it was in 1881, and I can find no reason for it
19 having been overturned, that the Supreme Court
20 said that the government of the United States,
21 when it grants letters patent for a new invention
22 or discovery in the arts, confers upon the

1 patentee an exclusive property in the patented
2 invention, which cannot be appropriated, and I'll
3 quote, "or used by the government." So you're not
4 going to get into the Zoltec and that business of
5 whether Fifth Amendment taking is involved, but it
6 cannot be appropriated by the government without
7 just compensation any more than it can appropriate
8 or use that compensation land which has been
9 patented to a private purchaser, we have no doubt.

10 Clearly, the civil asset forfeiture
11 piece of this proposal is illegal. I am quite
12 sure that any court of review properly briefed
13 will find that it violates 5 USC 706, that it is
14 in excess of the statutory jurisdiction authority
15 of limitations or short of the statutory right of
16 the Patent Office.

17 In my research I could only find one era
18 in our country when forfeiture was a part of the
19 patent laws. It was under the 1836 patent law,
20 much discussed at that point in time. It was a
21 defense passed as a law by Congress -- not a right
22 given to the new Patent Office at that time, but a

1 defense -- against alleged infringement of a U.S.
2 patent if a foreign entity had not practiced in
3 the U.S. the patent rights. There's an
4 interesting articles in the Scientific American of
5 that era, which I'll read a small excerpt which I
6 think is certainly applicable today, and I'll try
7 to give you written comments that have that cite.
8 And it's December 17, 1859, Scientific American.

9 "We have no sympathy with those who in
10 any patent suit place their defense against the
11 claims of inventor upon the plea of forfeiture of
12 his patent. A defense against a patent may be
13 successful upon such a plea, but who would carry
14 -- who would envy those that obtain such a
15 victory. We look upon forfeiture of our patent
16 law with repugnance. We feel ashamed of it, got
17 it disbarred from the old statutes of despotic
18 countries from the ages when all legislation was
19 carried out for the crown and none for the people.
20 We look upon inventors as public benefactors of
21 all countries. And in the present day, when
22 knowledge runs to and fro and there are such

1 facilities for communicating ideas and good
2 improvement from one country soon finds its way
3 into others, for these reasons inventors should be
4 looked upon as citizens of the world. Every
5 encouragement should be offered and every
6 protection afforded to them by all civilized
7 countries."

8 This rulemaking doesn't do that. Some
9 people say it's easy to comply. It's not right.
10 That is untrue. For those of you don't know,
11 who've never had the pleasure or I'll say the pain
12 of going through a Hart-Scot-Rodino filing and the
13 patent bar should wake up. The incorporation by
14 reference is barred directly from the premerger
15 notification requirements of that law. The
16 definitions were set up for a completely different
17 situation to determine the size of the entity or
18 the size of the transaction subject to reporting
19 under the HSR pre- notification.

20 And this is simply the Antitrust Bar
21 putting its nose into the IP tent. I will assure
22 you, having been through some of those, that out

1 of the over 20,000 active practicing patent
2 attorneys, I bet there's not 1,000 of us who could
3 apply properly the definitions which are
4 incorporated by reference in this proposed rule.
5 I bet there's not 100. There may not even be a
6 dozen if you wrote up a 100-question test who
7 could get it right each time, every time, time
8 after time. Yet we're the practitioners charged
9 with doing it right, reporting regularly, and
10 making sure that our clients' patents are
11 protected, valid, and enforceable if you go to
12 court.

13 Let me give you just one quote. I
14 personally believe that only an HSR-qualified
15 antitrust attorney can properly interpret and
16 apply the definition which you've incorporated by
17 reference. Since we're in San Francisco today,
18 I'll say on their web page the Cooley firm has a
19 quote which I think is quite appropriate. "The
20 HSR threshold are only one part of an analysis to
21 determine whether the HSR filing will be required.
22 The rules are complex and we can suggest

1 consulting with an HSR expert when contemplating
2 any transaction which may be subject to HSR
3 notifications."

4 As of February this year, the HSR
5 threshold value was \$75.9 million for a
6 transaction. Those rules, that complex
7 definition, doesn't even apply, doesn't have to be
8 worried with, with anybody, any small business
9 where a transaction's less than \$75.9 million.
10 Yet the PTO in this rulemaking proposes to make it
11 for every single inventor who's struggling to find
12 \$10,000 to pay for his next invention. It's
13 ridiculous. It is totally impractical for the
14 average inventor to do that. It's inequitable to
15 expect that it would happen.

16 If you ask another big firm on the East
17 Coast, if I were having a hearing, maybe I'd say,
18 okay, the people at Covington, who do, by the way,
19 work for big deals in this area, would probably
20 tell you the same thing. But what I'll tell you
21 as the Patent Bar you are not qualified to analyze
22 on an ongoing basis to apply the rules and

1 definition. Why? Let me give you some examples.

2 The devil is in the details, of course.
3 "They've only referenced the ultimate parent
4 entity." Okay, what does that mean? You have to
5 know what an entity is, you have to know what
6 control is. Those are expanded definitions in the
7 piece that's incorporated by reference.

8 "Corporations and natural persons are
9 all the same person if the natural person controls
10 two otherwise separate corporations." What does
11 that mean? We got three or four or five or six
12 corporations controlled by the same people. What
13 do we have to report? What are the names we have
14 to put on the ledger?

15 The case of unincorporated entity, and
16 this affects a lot of people I have, who has the
17 right to 50 percent or more of the profits? What
18 about people who obtain funds from their home
19 country and put it in and they have a deal with
20 Uncle Joe in China or India or Kazakhstan or
21 wherever it may be to bring profits back to them?
22 They may not want to report that person for

1 purposes that may be problematic in those home
2 countries, yet we've got an inventor here doing
3 his best to make his way in America, the land of
4 opportunity, and you're trying to kill it.

5 That same definition, "In the event of
6 dissolution, 50 percent or more of the assets of
7 the entity," what does that mean? Every time a
8 secured creditor gives a loan, we have to make a
9 new filing? Every three months? I don't know.

10 "Holdings of spouses and their minor
11 children shall be holdings of each of them." Do
12 we have to list all family members? Do we have to
13 make a report every time a baby's born to an
14 independent inventor? I don't know.

15 That is a part of the formulation under
16 the HSR rules. That's incorporated by reference
17 in what you've done.

18 These are complex rules. The
19 incorporation by reference should be totally
20 rejected by the director of the Federal Register.
21 They have rules to not allow incorporations by
22 reference in the Federal Register. Your proposal

1 of incorporation by reference is intentionally
2 deceptive, in my opinion. If I were a patent
3 attorney accused of inequitable conduct, I'd be
4 convicted. My patent would be found invalid on
5 the standard, yet you've deceived the Patent Bar
6 by not putting the details in the rule. If you
7 have a final rule, you better put the details in
8 the rule, every last piece, because it does not
9 put those affected on fair notice of your proposal
10 at all.

11 You say there's a cure, 1.137. Yeah,
12 I'm familiar with that process; if you have time.
13 I've been on both sides of mergers and
14 acquisitions. One time I was looking at an
15 acquisition for a small business, independent
16 inventor had created a really neat little deal for
17 rehabilitation of handicapped kids. The product
18 still sold, but I found that the inventor hadn't
19 paid a maintenance fee. Well, it had been a
20 while, filed a petition, but the inventor had
21 cancer and, over the course of a couple of years,
22 eventually died. Their children had come to me to

1 figure out what can we do.

2 I filed a petition explaining the facts,
3 but, as far as I know, there are very rare, rare
4 instances of these petitions ever being granted if
5 it's unavoidable and if it's unintentional after
6 two years. For unavoidable, you should have had a
7 durable power of attorney maybe and somebody
8 should have taken action during the period.
9 There's always an excuse that you could have done
10 something better. Those petitions, as a general
11 rule, are never granted.

12 The unintentional is even problematic
13 because, typical scenario, somebody comes to your
14 office and says I didn't mean to overlook this.

15 Okay, well, tell me the circumstances.
16 He tells you, well, I didn't have the money, I
17 just decided not to pay it then.

18 I'm sorry, I can't ethically file that
19 petition for you.

20 The guy goes to two or three patent
21 attorneys in town. He finally figured out by the
22 third or fourth one he doesn't tell that story.

1 He might have told that story to me and I sent him
2 out the door because I felt I couldn't ethically
3 file it, but he'll tell somebody, jeez, I just
4 overlooked it; I meant to file that. It gets
5 filed.

6 Anyway, you create an environment where
7 there's no respect for law. It's not a good plan.

8 When I see a rule like this, I want to
9 know what's happening. I want to know how do I
10 docket for it? How do I keep records? How do I
11 maintain the proof that I'll need when the
12 inevitable subpoena comes in the door in
13 litigation? When I'm doing M&A, I want to know
14 what the question is I need to ask. When I am
15 helping someone through M&A, I want to know what
16 data evidence do I have to have ready to present
17 so that someone will acquire their patent
18 portfolio.

19 You have created or would create with
20 this proposed rule a whole new industry for
21 litigation, for discovery. Every single financial
22 document for every small entity from the day that

1 they filed their first patent application, every
2 tax record, every funding record, every
3 mom-and-pop funding piece, every loan from every
4 bank, every one of those issues, all transactions
5 of a financial nature would be producible in
6 litigation because they might lead to material or
7 relevant evidence that some paper had not been
8 filed timely within three months. Therefore, the
9 patent is either -- depending on the stage --
10 applications deemed abandoned, the patent is
11 invalid, or unenforceable. You have to work
12 through the rules as to what the situation is.
13 But it's a whole new area.

14 We're trying to simplify litigation, yet
15 you want to create a whole new class of documents.
16 That document will read, the subpoena will ask,
17 please provide all evidence of your reporting on
18 the attributable owner. And then I'll get, please
19 provide the documentation used to evaluate who was
20 the proper attributable owner. Then they'll say,
21 where are the financial records? Where's the
22 partnership records? Where's the corporate

1 records? Where's the shareholder records? You're
2 complicating life beyond belief.

3 Trolls. Okay, I'm familiar with a case.
4 It was filed in the Eastern District of Texas.
5 After that, worked up a head of steam.
6 Twenty-three more cases were filed in the Northern
7 District. A case was filed in the D.C. District.

8 That was a problem. But the problem
9 wasn't that the patentee was doing anything
10 particular wrong. The problem was back at the
11 Patent Office. They overlooked and didn't
12 properly apply the material prior art. Once it
13 was done, it was gone.

14 That case was a chemical really or a
15 mechanical case. It was in the 1960s in the
16 oilfields. This is nothing new. Filings in the
17 Eastern District, expanded to elsewhere -- nothing
18 new.

19 The whole thing reminds me of a
20 situation. I learned almost all I need to know
21 about government my summer job during two summers
22 in college when I worked for the East Volusia

1 Mosquito Control District. We killed mosquitoes.
2 And you have the unenviable job of, like the
3 Mosquito Control District, you have to issue
4 patents, but you've got to realize that no matter
5 how hard you work, no matter what you do, some
6 patent's going to hatch off. It's going to bite
7 somebody. They are not going to like it.

8 They are not going to like it. That
9 person knows the mayor, in this case the
10 President. They scream. Mosquito Control, what
11 would happen? They knew the mayor. The director
12 says, Foggers, you're going out tonight, spray
13 everybody. Okay, we killed a bunch of mosquitoes.
14 You got them.

15 Those of us in the trenches, we know,
16 hey, the only way to kill mosquitoes is to drain
17 the water out of the ditch or to put fish in the
18 ditch to eat the larva. Fogging was just for
19 show. This whole rulemaking's just for show.
20 You're killing the wrong problem. You're spending
21 time on the wrong problem. You're making life
22 more complicated. You'll increase litigation

1 costs. You'll increase litigation defense costs.
2 You'll increase M&A costs. You make it impossible
3 for the small inventor to get going.

4 You may be intent on shutting out the
5 small inventor, I don't know. But I would appeal
6 to you and I would appeal to the Obama
7 administration, don't throw the independent
8 inventor under the bus. Protect those guys.

9 I work for people who started in garages
10 and those inventions are used all over the planet.
11 It can be done, it has been done. Don't kill that
12 era. This rulemaking should be totally rejected.

13 Thank you.

14 MS. GONGOLA: Thank you very much, Mr.
15 Goodloe. Our second witness at this morning's
16 hearing is Brian Schar, who is a practitioner from
17 the Silicon Valley area. Mr. Schar.

18 MR. SCHAR: Thank you, Ms. Gongola. I
19 appreciate you putting this together. And thank
20 you for all the PTO folks to be here and provide
21 the opportunity to speak, definitely appreciate.
22 And thank you to U.C. Hastings.

1 My name is Brian Schar. A brief
2 background on myself. I'm a 1997 graduate of USC
3 Gould School of Law in Los Angeles. I've worked
4 in two patent law firms and moved up here to the
5 Bay Area in 2001, and have worked at two different
6 companies, both pre-IPO startups when I began.
7 Currently, I am the director of IP and commercial
8 contracts at Intematix Corporation in Fremont,
9 although that I stress that I'm here solely in my
10 own capacity. My employer may or may not share my
11 opinions. I have no ideas. I have not
12 coordinated with my employer in any way, shape, or
13 form, and my opinions here, I do stress, are
14 solely my own.

15 So I have three major points to bring up
16 about these rules. One is more of an
17 administrative law point and the other two are
18 based on my experience in small startups here in
19 the Valley and I think are generally applicable
20 across the country, although this is a great
21 location to do this given that within a 60-mile
22 radius of this building, if not a majority of

1 patents to get issued in the U.S., I'd say a very
2 substantial minority come from this 60-mile radius
3 of right here.

4 So for rules that are somewhat arcane
5 and I think well-meaning, I think they have a
6 hugely destructive impact on the startup community
7 and small companies in general. And point one,
8 the Patent Office, I think, in this situation is
9 facing kind of a TAFIS-type situation, where there
10 simply isn't statutory authority for these rules.
11 Mr. Hirshfeld earlier pointed out the law with
12 regard to assignments and recordation of
13 assignments. It's purely voluntary whether to
14 record an assignment at the Patent Office. And
15 indeed, USC 261 provides for such recordation if
16 the owner wishes to do so, but also expressly
17 points out there are two separate categories. You
18 don't have to. And if you don't record, you don't
19 get certain benefits of recordation.

20 And really, these rules are essentially
21 recordation of ownership interest rules. Whether
22 they're going to be a formal recordation or not,

1 the same sort of paper is going to be required.
2 And fundamentally, the requirement for that
3 information boils down to a requirement to record
4 an assignment of ownership interest. Because the
5 statute doesn't require that, the rules go beyond
6 the authorization of the statute, in my opinion,
7 and thus, are going to create a situation where if
8 these rules are enacted, they're going to get
9 reversed just like the continuation rules did in
10 the TAFIS case a few years ago.

11 There's another round of patent
12 legislation going around Congress right now. I
13 would suggest that that might be a better venue
14 for these rules if there is an intent to expand
15 the requirements on patentees than the approach of
16 altering the CFR.

17 So my second two points are generally
18 informed kind of by my experience working at small
19 startups. And I want to give sort of a little
20 flavor of what it's like and what records are like
21 and what these obligations really mean to people
22 in small companies.

1 So point two essentially is these rules
2 do discriminate against small companies,
3 especially small venture-funded startups. The
4 proposed 1.271(g) exempts public companies from
5 having to separately identify shareholders, but
6 that exemption is not in place for small private
7 companies.

8 So typically, for a small private
9 company that's going to have a few millions
10 dollars of revenue and 20 to 100 employees,
11 there's going to be 100 to 500 shareholders
12 typically. Of course, there's always going to be
13 different ends of the bell curve, but that's not
14 an unusual amount of shareholders.

15 So when I go to my CFO and say, hey, can
16 I get a list of our shareholders? I need to
17 disclose this publicly. I'm going to need to
18 bring a helmet and I'm going to need to bring some
19 earplugs and be prepared for some foul language.
20 And that might be an interesting field trip for
21 one or more of you to go on is to have someone in
22 private practice just take you around to some

1 clients and just talk to some CFOs about what they
2 think of this requirement because they're the ones
3 who are going to have to prepare a lot of this
4 information for the patent people.

5 So of those, let's say you have 100
6 shareholders. You're going to have individuals,
7 you're going to have family trusts. There's going
8 to be LLPs, there's going to be all manner of
9 different organizations. And probably 70 to 80
10 percent of those shareholders are going to be
11 friends and family, doctors, other people in the
12 tech community, a variety of angels. But there's
13 always a family trust. There's always oddball
14 entities.

15 So when you go to the family trust and
16 say, hey, I need to know who controls your family
17 trust, they're going to tell you to take a hike.
18 Right? It's as Mr. Goodloe had mentioned earlier,
19 these rules end up being fundamentally impossible
20 to comply with for a small entity because all it
21 takes is 1 of these 100 shareholders to say, no,
22 we're just not going to give you that information,

1 sorry, buddy. We're a family trust. You don't
2 need to know anything more than that.

3 That one entity that says no blows it
4 for the entire group of shareholders and ends up
5 destroying the patent rights.

6 Another example is licensing. I was in
7 a deal some years ago where there was a
8 representative who had a small company,
9 approximately 50 employees, that licensed a chunk
10 of its portfolio to a much larger private entity.
11 Again, not that unusual in smaller startups. I
12 think you see this more in some of the more
13 hardware-oriented startups as opposed to software,
14 where someone has a set of technology and they
15 plan to use it here and they end up not -- they're
16 never going to use it here, but they need money.
17 So they'll license it to somebody in this space
18 who's never going to be a competitor, and get
19 sometimes enough money to keep going for a year or
20 two out of that deal.

21 Well, these people, this much larger
22 private company, were really nice folks. They

1 were great joint development partners. You
2 couldn't have asked for better people or a better
3 partner. But if I went to them and said, hey, can
4 I get your shareholder list because I need -- I'm
5 filing some IP and, you know, you have this
6 exclusive license and I need to get this data from
7 you, they would laugh. And they would laugh, in
8 part, because as a licensee, what incentive do
9 they have to provide that information? If they
10 don't provide it and the patents that they're
11 licensing go abandoned, well, great, they don't
12 owe any more license fees. That's fantastic.
13 It's in their interest to not comply.

14 So you end up in situations where it's
15 just not possible to comply and you require the
16 cooperation of parties who have an interest in not
17 complying. So I think that's a problem for small
18 companies.

19 And my third I think very related point
20 is that there's a lot of vagueness as to who
21 actually is an attributable owner. What about the
22 landlord? The landlord always has a security

1 interest in the IP. You're a five- person
2 startup, you have no assets. I mean, nobody cares
3 about your chairs or your desks or your computers,
4 and you've probably leased your chairs and desks
5 anyway and your computers have essentially zero
6 value. Like a new car, you know, they lose half
7 their value three days after you drive them off
8 the lot.

9 So the only asset you have as a small
10 company, aside from your people -- and you really
11 can't pledge them as security interest; the 13th
12 Amendment, fortunately, prohibits that -- the only
13 thing you've got are your people's ideas. And
14 it's so common I can give a situation where --
15 with the reality of a startup.

16 So you have -- I've actually been
17 involved with garage-based startups. I have a
18 good friend that's done about five. They're still
19 alive and well, believe it or not, in Silicon
20 Valley, even in 2014. I think if you drive around
21 you'd probably be surprised if you lifted up some
22 garage doors what's going on inside. So you have

1 one person in a garage and, you know, one person
2 can comply with these rules pretty well. It's one
3 person. There's no investors. There's no
4 landlord. There's no licensees. It's one guy at
5 the very beginning.

6 But then he or she has some success,
7 gets some investors, has two or three or four or
8 five people in a garage and it's time to move into
9 a real space. Well, they've already filed --
10 let's say they filed their pioneer patent, they're
11 smart enough to have gotten some IP on file. And
12 then the landlord puts the lease in front of them
13 and say, okay, here's our standard lease, take it
14 or leave it. Well, the founders have ego and they
15 think they know everything, so they'll take a
16 look. Oh, the business terms are fine and they'll
17 sign the lease. Maybe, if they're smart, they may
18 have a real estate attorney look at it, who's
19 going to have no idea about any of our specialized
20 patent rules and what the implications that the IP
21 security interests have for the company's
22 intellectual property.

1 So the founders just sign it. They
2 don't know anything about it. They don't
3 understand the fact that the landlord suddenly has
4 a security interest in their IP and it means they
5 need to make a filing. So three months later,
6 oops, their patent goes abandoned.

7 There's any amounts of situations with a
8 line of credit, with -- you know, small companies
9 need money and when you have no assets whatsoever
10 other than your IP, you end up encumbering your
11 IP. And that ends up in situations where people
12 that don't really -- maybe haven't seen a patent
13 attorney yet or maybe saw their patent attorney
14 one time to file and they're not going to tell
15 their patent guy they signed a lease. They're
16 going to talk to their real estate guy, if
17 anybody. You end up in situations where it's
18 literally impossible for anyone other than a solo
19 inventor or a large corporation to participate in
20 the patent system.

21 Now, I don't think that's the intent of
22 these rules. I don't think the intent is to drive

1 small venture- funded startups out of business or
2 out of the patent system. I don't think it's the
3 intention of the administration, who has
4 repeatedly talked about commitment to small
5 companies and jobs and so forth. I don't believe
6 it's the intention of the administration to drive
7 startups out of business and to make it harder to
8 get funding. I don't believe that's the intent
9 here. But nonetheless, I think that's the effect
10 based on the reality of day-to-day life at a
11 startup if these rules were to be implemented as
12 set forth.

13 You know, if I had one suggestion, if
14 there was an intent to go forward with these
15 rules, a suggestion to change, you know, simply
16 delete the 1.271(b) and (c) and modify the
17 1.271(a)(2) so that this rule is limited in time
18 to the time and date you file that paper. You
19 don't have to worry about somebody who may have an
20 interest if you go bankrupt in 10 years and that
21 speculative nature of, you know, gosh, all these
22 people may have an interest some day. You look at

1 who has the ability to control litigation, which
2 is the 1.271(a)(2) in the rules right now.

3 And I think if all you're doing is
4 saying, hey, you need to identify someone who
5 would be -- who would have the consent if there
6 were a settlement in litigation or if there were
7 litigation, I think that's fairly
8 noncontroversial. And I think it still doesn't
9 get around the administrative law problem of
10 authorization by statute. But I think that
11 becomes so easy to comply with that it becomes, I
12 think, very noncontroversial.

13 I think some of the other goals sought
14 to be met with these rules, I appreciate that
15 there is the common ownership rules now with the
16 AIA, but the patent holder or the applicant has
17 every incentive to be the one to identify that
18 now. The incentives are aligned. That entity
19 would want to provide that information. I think
20 from a freedom to operate standpoint it doesn't
21 matter who owns the patent.

22 And I think I will briefly state I think

1 part of the issue that this -- when you have
2 people that get worried about who's really in
3 charge of a patent, who's asserting a patent
4 against me, I think that often comes from
5 industries where they move so quickly, they simply
6 ignore issued patents. I think the previous
7 person that talked about patents that shouldn't
8 have been issued, regardless of how good a job
9 anyone does, there's going to be -- there's a bell
10 curve and there's going to be some that get
11 through that shouldn't and some that don't get
12 through that should. That's the nature of life.
13 But I think there's a problem with certain
14 fast-moving industries where they just don't
15 bother to do freedom to operate and then they're
16 surprised when somebody sues them for
17 infringement.

18 And I think that, to some extent, we're
19 looking at solutions here from the Patent Office
20 side and from the rules side and the legislation
21 side that really need to be addressed by cultural
22 changes in certain industries that just don't have

1 much respect for the patent system as it is right
2 now.

3 And that's the sum totality of what I
4 have to say. I appreciate the chance to speak and
5 thank you very much.

6 MS. GONGOLA: Thank you very much, Mr.
7 Schar. Our third witness this morning is Daniel
8 Nazer on behalf of the Electronic Frontier
9 Foundation. Mr. Nazer.

10 MR. NAZER: Thank you. Thanks a lot to
11 the PTO for inviting us here and giving us this
12 opportunity. Thanks to everyone who came out on a
13 rainy day to talk about patent policy.

14 On Friday last week, there was a
15 roundtable, a conference at Stanford and Judge Dyk
16 of the Federal Circuit talked about the importance
17 that patent policy gets input from people outside
18 the insular world of the Patent Bar; that patents
19 affect the public, patent policy affects the
20 public at large. And if you see patent policy as
21 something that takes place between the Patent
22 Office and customers, where the customers are

1 applicants, then you're going to get a distorted
2 system that works unfairly to the public. And so
3 we really appreciate the opportunity. Even though
4 sometimes we're critical of the PTO, it's great to
5 have a dialogue and get these different views.

6 So one thing that I would really stress
7 is that the notice function of the patent system
8 is failing when you have vague claims and you have
9 hidden ownership of patents. The previous speaker
10 spoke about people not doing freedom to operate
11 and that being a problem and that being a cultural
12 problem, but if you consider that there are a
13 quarter of a million patents issued every year,
14 the practical challenge of doing freedom to
15 operate is made a lot more difficult when you
16 don't know who owns what.

17 It's very different doing -- if you want
18 to analyze your -- a litigious competitor's
19 patents, you want to analyze a litigious PAE's
20 patents, but if you don't know who owns what,
21 maybe a patent belongs to a competitor you have a
22 cross-licensing deal with or it belongs to

1 Intellectual Ventures. If you don't have that
2 information, then the project of doing freedom to
3 operate becomes much more difficult, much more --
4 it's much easier and efficient if people can
5 actually know where the patents are then analyze
6 whether they want to take a license, do a design-
7 around, or just take a risk if they think the
8 patent's invalid.

9 So transparency is a public good. And
10 then the question is, like, where should the costs
11 lie? Obviously, this does impose new costs. The
12 previous speakers have spoken at length about
13 that.

14 But then the question is, like, where
15 are they most appropriately placed? And I think
16 you can argue about some of the details. I think
17 the previous speaker made some good points about
18 some of the sub-provisions being more burdensome
19 than others, but, ultimately, the right place for
20 this transparency is at the applicant and the
21 patentee. They have that information. People
22 shouldn't have to litigate to figure out who owns

1 a patent.

2 I mean, we hear stories of people being
3 told in litigation, well, if you want proof that
4 we own the patent, then you get that in discovery.
5 And you're talking about cases where the
6 settlement offer might be \$50,000. You're not
7 going to get there without spending more money
8 just to get to that kind of discovery.

9 So my main comment is that given that
10 the PTO and the administration is going in this
11 direction of looking -- of trying to create a more
12 transparent patent system and requiring ownership
13 information, so if it's going to impose these
14 costs, and we don't question that there is a cost,
15 that to get all of the benefits it should require
16 not just at these checkpoints, but any transfer
17 because the chain of title is really important.
18 And what we're seeing increasingly is patents are
19 going through different owners and the person that
20 sues might ultimately be a shell company PAE, but
21 it's gone through an entity like controlled by
22 Intellectual Ventures or IPX or an entity that's

1 had a settlement agreement with a bigger company,
2 and that the RAND obligations and licenses that
3 these patents are subject to is only revealed by
4 the full chain of title.

5 And so I'll give you an example of
6 (inaudible) story which is an NP that acquired
7 patents from Broadcom, sent out 14,000 letters,
8 filed a number of suits, and ultimately it turned
9 out that it was targeting over 100 million devices
10 that were already licensed. And they were already
11 licensed because of where these patents came from.
12 In that case there were actually quite good
13 ownership records already at the PTO and people
14 figured out really early in that campaign what was
15 going on. It was basically fraud and Cisco and
16 others were able to get on top of that and respond
17 and it was a long process. That's more the
18 court's problem than the PTO, but, ultimately,
19 that's come to a better resolution.

20 But you can contrast to the Lodsa story,
21 which is a shell company NP, which has threatened
22 hundreds of application developers and sued many.

1 And when that litigation campaign started there
2 was speculation about whether that patent had gone
3 through Intellectual Ventures. And there was
4 speculation about whether it might be subject to
5 licenses to Apple and Google because of that and
6 whether the application developers would
7 effectively be licensed as the customers of those
8 companies.

9 And the facts of that are still not
10 entirely public because a lot of the record is
11 sealed, but it turned out that it was and it
12 turned out that the victims of these suits are
13 almost certainly licensed and it took years for
14 that information to come out through extremely
15 expensive discovery. And the kind of transparency
16 information that's needed would have allowed those
17 application developers to know immediately and
18 allowed them to perhaps try and interplead or
19 bring other parties into those suits and get
20 justice a lot faster.

21 And so that's why that chain of title is
22 important because in both of those cases, the

1 patents had been transferred multiple times and
2 the key owner or beneficial owner was somewhere up
3 the chain.

4 And I would the notices in the Federal
5 Register notes that there's not a great burden in
6 checking a box saying the ownership hasn't
7 changed. So if ownership changes, you're going to
8 have to report it at some point during the term of
9 the patent. And so the additional burden of
10 recording the actual ownership change isn't that
11 significant and then you get all of the benefit of
12 having a transparent system. So we would strongly
13 recommend that.

14 And I would also say there's a problem
15 with the checkpoint system which is that the most
16 aggressive patent enforcement entities, patent
17 trolls, tend to litigate in the very final years
18 of life of the patent, so the final three years of
19 the term, and a lot of the transfers are taking
20 place in these last few years of the patent term.
21 And so a lot of the information that would be most
22 helpful to the public is not going to get captured

1 by these rules because depending on when it issues
2 and when the final maintenance payment is, it's
3 quite possible that you're going to have a period
4 of years where the most activity's taking place
5 and there's no more requirement that ownership
6 information is recorded.

7 I don't want to get into constitutional
8 law or Section 21 too much, but, you know, our
9 view is this is a regulatory -- this is a
10 procedural rule. I think Section 21 is silent on
11 whether recordation is required or not. It
12 provides a benefit to people who record ownership,
13 but I don't think it precludes this law. But,
14 obviously, the PTO will do its own detailed legal
15 analysis of that.

16 Finally, I would say that I would really
17 urge the PTO if this rule or something like it
18 goes forward and these records are collected, that
19 the records are available in an open format, a
20 nonproprietary database, that has APIs that can be
21 queried easily by the public. I think it might be
22 an opportunity to improve some of the IT and make

1 a little bit what Daniel said at the beginning,
2 but I think is something that's really important,
3 and it's when we talk about the public interest in
4 the patent space and when we talk about the
5 interests of those who don't necessarily set out
6 to participate in the patent space, but find
7 themselves, for better or worse, there. And
8 recently, the Patent Office has been a real leader
9 in this and I am incredibly thankful for that.
10 We've had a lot of conversations. There have been
11 many opportunities to raise these issues.
12 Traditionally, this wasn't always the case. And
13 we are really encouraged to see this trend and,
14 you know, have every reason to hope and expect
15 that it will continue.

16 So I think really, really want to stress
17 that this is a very important thing and that
18 transparency is an integral part of this, if not
19 the most important part of this. Because there
20 are tons of small companies of individual
21 inventors who find themselves needing to
22 understand what's going on in the patent world and

1 they can't afford to hire a lawyer always to
2 figure that out. So today, I'm going to quickly
3 talk about three things. I'll try and keep my
4 comments short because, at this point, some of it
5 will be repetitive, but I want to talk about why
6 these transparency rules matter and why they're so
7 important and why we're so encouraged by the work
8 the Patent Office has done to increase
9 transparency surrounding ownership.

10 I'd like to make a couple comments,
11 number two, a couple comments that are substantive
12 on the actual proposals. A couple places we think
13 it could be a little bit better.

14 And finally, as Daniel said at the end
15 of his comments, too, I want to talk about making
16 sure that this recorded information is publicly
17 available, accessible, easy to actually find, and
18 I'll get there in a second.

19 So, you know, first, I would just go
20 back to the beginning. You know, 35 USC Section 2
21 lays out two fundamental jobs for the Patent
22 Office: One is to grant and issue patents and

1 trademarks and the other is to "disseminate to the
2 public information with respect to patents and
3 trademarks." Obviously, there is a lot that goes
4 into those two things, but those are the two jobs.

5 And I think when we talk about
6 dissemination of public information, lately we've
7 got some problems. The FTC said it best I think
8 in its 2011 report on notice, which I'm sure
9 everyone is familiar with, but I'm going to read a
10 quick quote from there, if you'll allow me.

11 "Clear notice of what a patent covers can increase
12 innovation by encouraging collaboration,
13 technology transfer, and design- around. Clearly
14 defined patent rights can help companies identify
15 and license technology they wish to develop or
16 adopt. Poor patent notice can undermine the
17 patent system's ability to fulfill this role,
18 however. Potential collaborators or licensees may
19 not find relevant patents or they may hesitate to
20 invest in technology when the scope of patent
21 protection is unclear."

22 And that same FTC report, for what it's

1 worth, went on to find that, "PTO records provide
2 poor notice regarding current ownership of
3 patents." There's some more on that in the FTC
4 report. It's around page 130. If anyone is
5 interested, that's where that conversation is.

6 Questions of ownership are often absent,
7 I find, from the important debates that surround
8 the notice function of the patent system, which
9 is, I think, incredibly unfortunate. Because
10 short of what a patent covers, and that's a debate
11 we've save for another day, there is nothing more
12 important than who owns the patent. And there are
13 a lot of reasons it's important, you know, we've
14 talked a bit about those already: Being able to
15 reach out and get licenses if you want, being able
16 to figure out design-arounds, being able to assess
17 your risk and litigation. But what we've also
18 seen -- I mean, there's research that backs this
19 up, too. And for starters, Professor Colleen
20 Chien found that information regarding changes in
21 a patent's ownership and transaction history are
22 some of the most important predictors of whether a

1 patent will end up in litigation. And she also
2 found, in many cases, that the transfer of a
3 patent was a precursor to whether it is litigated.

4 So imagine for a second a startup in
5 receipt of a demand letter from a practicing
6 company, a non-practicing company, I don't think
7 it really matters, frankly. That startup can't
8 afford a patent lawyer, but wants to assess its
9 risk, wants to get an idea of what it should do
10 without having to call a lawyer first. So
11 clearly, information surrounding that patent's
12 true ownership would be vital in that process.
13 And it's those people who receive the letters that
14 I really, again, am here to talk about today, the
15 myriad small companies and innovators who want to
16 create and invent and, when they can, steer clear
17 of the patent system; not to say ignore patents,
18 you know, it's not to say not respect patent
19 rights, but if they can't even get their head
20 around the scope of the patent rights that exist
21 in their space, they're kind of hamstrung. So
22 these folks need easy- to-use and accessible tools

1 to access information surrounding a patent's
2 ownership to make those strategic decisions,
3 again, about litigation, offers no licenses, and
4 more knowledgeable design-around decisions.

5 One more data point here I want to
6 raise, again, from Professor Chien. She studied
7 915 patent litigation filings made by PAEs or
8 patent trolls and found that in about one-third of
9 those cases the plaintiff was not the patent owner
10 of record as of the day the litigation was
11 initiated. Patent litigation is expensive enough
12 and difficult enough as is. It's even worse when
13 a defendant has to really fight to find out who's
14 on the other side.

15 So I'm going to shift now to some of the
16 substantive ideas in the rulemaking. And first,
17 overall, we strongly feel that the Patent Office
18 is on the right track here, so that's, I think, my
19 most important takeaway is this is good overall.

20 We want to incentivize searching and
21 clearance work. That was discussed by a couple
22 earlier speakers, but we think the way to do that

1 is by providing more information and making that
2 information more easily accessible. Again, to go
3 back to that FTC report, there's a whole section
4 in there on clearance searching and how people in
5 the IT space don't really do it. And I think if
6 there were more easy access to information that
7 would improve.

8 I think that a patent should have to
9 verify ownership at every touch point. It is, of
10 course, you know, as we said, one of the most
11 basic facts of the patent. You should not have to
12 hire a lawyer to find out who owns a patent that
13 you might be -- that is in your space. You know,
14 if you're a small company and there's a patent out
15 there that you want to see if you can license,
16 design- around, you might face some litigation,
17 you should not have to pay a patent attorney to
18 find out who owns it. That is something that
19 should be able to happen without the friction of
20 lawyers and it should be able to happen in the
21 business space.

22 Right now, of course, it's not the case.

1 And Professor Feldman, who's here today, and I'll
2 throw this along with Tom Ewing that great paper,
3 "The Giants Among Us," and they did some serious
4 heavy lifting kind of tracking all the moving
5 pieces of Intellectual Ventures. Obviously,
6 Intellectual Ventures is an extreme example, but
7 if anyone just takes a couple minutes and even
8 reads the abstract about how much work it took to
9 try and track that down, with all the resources
10 they were able to bring to bear, and then you can
11 imagine a small company who's doing 8 million
12 things to try and run its business in the same
13 position, and you can understand why we need these
14 types of regulations.

15 So the proposed rules will be more
16 meaningful during the examination period when
17 there are more touch points. Daniel also brought
18 up something that's really important: The
19 research that shows that a lot of patents are that
20 are asserted by non-practicing entities are
21 asserted at the end of their life. I think that's
22 a very important point to think about as we think

1 about ways to increase reporting throughout the
2 life of the patent after the last maintenance fee
3 in particular.

4 During the pendency, right now the
5 proposed rules I think have a three-month window
6 for reporting changes in ownership. I think it
7 should be, you know, 45 to 60 days. If anything,
8 I'd say less. I know there are a lot of people in
9 here who disagree with me, but that's where we're
10 at.

11 I mean, I'd go so far as to say that
12 every time an assignment is made it should be
13 recorded, and right now that's voluntary. I don't
14 think it should be for all the reasons I've been
15 saying.

16 The MPEP already getting into
17 recordation. I went back, I hadn't seen it in a
18 while, but I went back and I printed out -- though
19 it's lost in here -- the form. It's an incredibly
20 simple form. It's one page. So I think
21 something's -- you know, we're not talking about
22 moving Heaven and Earth here to file this type of

1 information.

2 And to the extent -- I think there are
3 some complaints that this would be very -- I mean,
4 we've heard some of them today -- very expensive
5 and very hard for companies to comply with. My
6 understanding is the Patent Office has already in
7 the recent past reduced fees associated with
8 recordation. And I think there are a lot of other
9 ways we can think about streamlining the process.
10 For instance, consider ways, and this might be a
11 little bit more complicated, but looking into ways
12 that companies might be able to record changes in
13 ownership without needing an attorney to sign off
14 on it. I don't know what exactly that would look
15 like, but happy to kind of think through some of
16 those things.

17 I understand, I have been in private
18 practice, too, and I understand that this would be
19 a hard thing for firms to docket. I get that.
20 But, frankly, I don't think it's this office's job
21 to protect the practitioner so much as protect the
22 patentees and the public interest as, you know, 35

1 USC Section 2 says.

2 And finally, I'm not that sympathetic,
3 at the end of the day, to companies who claim that
4 it's too much of a burden to tell the Patent
5 Office who owns the patents. These companies are
6 sitting on a government-granted 20-year monopoly.
7 Those monopolies are, frankly, ill-gotten gains if
8 their owners are not complying with the letter and
9 the spirit of the system by not providing basic
10 information surrounding the scope of the patent
11 and its ownership. The patent system is a public
12 system. If it's not public, it's not working.

13 Finally -- or not finally, but my third
14 point I'm going to quickly talk a bit about
15 user-friendly access and how important I think it
16 is that as the PTO continues to collect more
17 information like this, it is disseminated in
18 user-friendly efficient and effective ways. For
19 better or worse, Public PAIR is not the most
20 user-friendly site. I don't think I'm telling you
21 anything you don't know. I think if someone
22 hasn't spent a lot of time playing around at the

1 Patent Office website before and found themselves
2 on Public PAIR, they might be a little bit
3 confused.

4 But the good news is that there are a
5 lot of public-private partnerships and a lot of
6 examples of people, either public interest groups
7 or even companies, helping to streamline that
8 information. So, for instance -- oh, Daniel also
9 talked about providing open APIs. I think that's
10 really important, but you have to remove CAPTCHAs
11 in order for that to really work efficiently is my
12 understanding, and I think right now there might
13 be a little bit of a roadblock there.

14 Also, I think there was a lot of
15 success, for instance, with the 2011 deal with
16 Google, when Google provided all that access to
17 the transactional data. These are the kinds of
18 partnerships, I think, that would be really
19 helpful in going forward.

20 There have been tons of other successful
21 public-private partnerships -- Peer-to-Patent, of
22 course, is one -- and we've seen other groups do

1 it sometimes with the cooperation of PTO and
2 sometimes even without. Ask Patents, the stock
3 exchange site, has been really helpful. Trolling
4 Effects, a site that Engine and EFF and other
5 organizations have worked on to help provide
6 access.

7 People want access. They want
8 information. And there are a lot of groups out
9 there who I'm certain would be willing to work
10 with PTO to help get that out there in ways that
11 might be more user-friendly than PAIR. Though I
12 would be remiss if when talking about this I
13 didn't say that the new small business portal is
14 really great and we're very excited to see that,
15 so we're happy to see more movement toward that
16 kind of user-friendly access from PTO, as well.

17 Finally, I just wanted to raise briefly
18 but not talk too very long about the voluntary
19 submission of licensing information, which is also
20 in the Request for Comments. And I would just
21 like to applaud any effort to collect and
22 disseminate this kind of information, particularly

1 with regard to licensing. As I've said probably
2 17,000 times today, it's the very type of
3 information that empowers small companies and
4 startups to positively interact with the system,
5 to get ahead of the system, and then find
6 themselves empowered, frankly, with the type of
7 information that they need to run their
8 businesses.

9 I'm happy to talk more about that as,
10 you know, this process kind of moves along. But
11 what we did find, briefly, with that Trolling
12 Effects site is that people who are on the
13 receiving end of licensing demands were not very
14 excited about providing that for a host of
15 different reasons. We think a lot of times they
16 wanted to kind of keep their head under the sand,
17 not raise their profile, but we think the Patent
18 Office might have more luck in doing that, first,
19 since it's, after all, the government; and second,
20 you're asking potential licensors, as I
21 understand, to provide the information. You're
22 not going to face the kind of risks that we did

1 asking the potential licensees to provide that
2 risk [sic].

3 So I think there are a lot of
4 interesting angles on this and I know I speak for
5 myself and I'm sure some others in the room that
6 we're happy to share our experiences with that
7 site and give you some feedback and things we
8 think that might be helpful for you guys going
9 forward if you do end up working on that. You
10 know, in my perfect world, I wish it were
11 mandatory that everyone had to provide that
12 information, but I think we might need Congress to
13 get involved to do that.

14 So, again, thank you all so much. Thank
15 you for opening up this conversation. I think
16 this is really important and we're very
17 encouraged.

18 MS. GONGOLA: Thank you very much, Ms.
19 Samuels. We've now reached the point in time
20 where we will take our morning break of 15
21 minutes. For those of you in the in-person
22 audience, on behalf of U.C. Hastings, I invite you

1 to enjoy a morning breakfast snack, some food
2 items, some water in the back of the room. And
3 for our webcast audience, we will be returning at
4 11:15, so see you very shortly.

5 If any of you in our live audience are
6 interested in giving unscheduled testimony, please
7 see me during this break time and I will add your
8 name to our witness list. So we will be back at
9 11:15. Thank you.

10 (Recess)

11 MS. GONGOLA: We are at our Attributable
12 Ownership Public Hearing at the University of
13 California, Hastings School of Law. We want to
14 thank in particular again the Institute for
15 Innovation Law for hosting our event this morning,
16 in particular Professor Robin Feldman and Mr. Josh
17 Wolf, who is a program associate here. Thanks for
18 tuning in to the hearing thus far. We've received
19 eight witness testimonies thus far. We will now
20 receive four additional witnesses.

21 Our first witness following the break is
22 Mr. Mark Blafkin for the Association for

1 Competitive Technology. And as before the break,
2 I invite each witness when I read your name off to
3 please come forward to give your remarks from our
4 witness box/podium. Mr. Blafkin.

5 MR. BLAFKIN: Hi. My name is Mark
6 Blafkin. I'm here representing ACT, the app
7 association, which has 5,000 startups and small
8 business members from around the world. I'd like
9 to thank the PTO for putting this together and
10 giving us an opportunity to testify, as well as
11 Hastings Law for putting -- finding us the room
12 and putting all this together.

13 ACT fully supports requiring additional
14 transparency around attributable owner rules and
15 believes it will be an incredibly powerful tool to
16 preventing these scourge of patent trolls and,
17 particularly, dealing with shortening patent
18 litigation generally. However, we do share some
19 of the concerns previous speakers have stated
20 about the existing proposal and some of the
21 unintended consequences it could have for
22 invention.

1 Unlike my fellow speakers, I'm not a
2 lawyer, so I'm going to be basing my comments
3 instead on spending the past decade talking to
4 startups and entrepreneurs, patent lawyers, large
5 companies, educational institutions about patents,
6 innovation, and intellectual asset management
7 strategies. During that time, I spent a lot of
8 time listening, learning, and observing real
9 changes in the way that our industry looks at
10 patents and uses them.

11 In many ways, we are seeing the exact
12 same phenomenon and problems as our friends at
13 Engine and EFF. Patent trolls are a real threat
14 to our members and their use of shell companies to
15 hide ownership of patents makes fighting
16 litigation against bogus patents that much more
17 difficult.

18 We also believe that it's critical to
19 get this information out in a very usable way for
20 the public. However, we don't agree that nothing
21 is more important than ownership. In the end, we
22 think the most important issue should always be

1 whether the system is promoting invention and
2 innovation and providing the societal benefit of
3 teaching about new inventions.

4 Studies have shown, and we have seen, a
5 clear decline in startups pursuing software
6 patents. But in this trend, we actually see signs
7 of growing health of the patent system and its
8 increased importance to invention, innovation, and
9 entrepreneurship, even in the software space.

10 The reality is that the vast majority of
11 our members and software developers around the
12 world are not working on technology that needs to
13 be or should be patentable. The software patent
14 bubble in the previous decade was inflated by a
15 surge of overly broad and weak patent
16 applications, the kind of patents that patent
17 trolls are taking full advantage of today.

18 The current wave of social app and
19 Internet startups are largely building on and
20 refining technologies that were invented in the
21 '80s and '90s, and valuations and acquisitions in
22 the tech startup world are really based primarily

1 on brand and user base. It is, therefore, not
2 surprising that VCs investing in the current wave
3 don't prioritize patents because, one, the
4 companies that they're working with aren't really
5 in the invention space; and two, the PTO has
6 largely recovered from its early stumbles with
7 software patents and they are much harder to get.

8 What doesn't get enough attention,
9 however, is that the vast majority of those
10 startups who are still pursuing software patents
11 are exactly the kind of companies we want pursuing
12 software patents. These are companies and
13 researchers who are taking enormous risks
14 investing in long- term R&D strategies to develop
15 the next wave of inventions on which the next wave
16 of innovations will be built. These companies are
17 the seed corn for the next technological
18 revolution and they are willing making a
19 societally beneficial trade of giving the world a
20 look at their inventions in return for a
21 time-limited protection of them.

22 Our concern is that expanding the

1 attributable owner rules, particularly at the
2 filing stage, could make it more difficult for
3 these companies to raise capital and find partners
4 for potential commercialization. The most likely
5 investors for these startups are strategic
6 investors from large companies, often companies
7 who are not currently working in that space.

8 These strategic investors are
9 considering the potential for these technologies
10 to be part of long-term product roadmaps. They
11 may eventually strike a license with these
12 companies or acquire them. In many cases, these
13 investors want to keep their investments quiet for
14 pro- competitive and pro-innovation reasons. They
15 want to invest in long-term debts without
16 competitors knowing, especially when these are
17 brand-new product categories representing large
18 new opportunities for the company.

19 A great example of this was Apple's
20 acquisition of companies, technology, and people
21 in the lead-up to the launch of the original iPod.
22 Most of the acquisitions were kept quiet to allow

1 the company to launch the iPad [sic] without
2 competitors having a chance to get a head start on
3 responding or copying their strategic direction.
4 We believe that those changes would make this kind
5 of strategic investing far less appealing. Not
6 only would this make it harder for inventive
7 R&D-based startups to raise capital, but it could
8 also force some of these companies to rethink the
9 decision of applying for patents, thereby removing
10 the constitutionally enshrined benefit to our
11 society. At a time when the patent system has
12 finally rounded the corner on software patent
13 quality and we're looking for new inventions to
14 fuel the next technological wave, expanding
15 attributable owner requirements to the patent
16 application and grant stage is unnecessary and
17 could do real harm to startups and investments in
18 long-term R&D.

19 The silver lining here is that bringing
20 transparency to patent litigation, particularly
21 with patent trolls, doesn't require the new
22 disclosure requirements to be imposed that early

1 in the process. The primary problem with trolls
2 is their use of shell corporations to hide their
3 purchase of patent portfolios with low-quality
4 patents from the 1990s and 2000s. Requiring
5 disclosure of this ownership at patent filing or
6 even grants would do nothing to solve this
7 problem. As Mr. Nazer and Ms. Samuels said
8 earlier, the vast majority of troll litigation and
9 reassignment of patents happens in the last three
10 years of the life of the patents. That's why we
11 think more targeted proposals similar to that from
12 Congressman Goodlatte are safer and would address
13 this problem without hindering the startups who
14 are building the foundations for the next wave of
15 technology.

16 In the end, we need to remember that the
17 teaching component of the patent system is about
18 the invention and the technology, not sneak peeks
19 into a competitor's business strategy.
20 Transparency must be implemented to further our
21 goal of promoting invention and innovation, but we
22 are concerned that forcing new attributable owner

1 rules into the application and patent-granting
2 process would unintentionally harm those goals.

3 That's it. Thank you.

4 MS. GONGOLA: Thank you very much, Mr.
5 Blafkin. Our second witness after the break is
6 Mr. Nick Godici on behalf of American Intellectual
7 Property Law Association. Mr. Godici.

8 MR. GODICI: Thanks very much, Ms.
9 Gongola, and thanks to the PTO, many of my former
10 colleagues here at the PTO. In the interest of
11 full disclosure, I'm a former commissioner for
12 patents at the USPTO and former acting
13 undersecretary at the PTO. I retired from the PTO
14 nine years ago, worked in a patent law firm for
15 the last eight years, and now I'm doing
16 independent consulting work. But I'm here today
17 to give comments and testify on behalf of the
18 AIPLA, the American Intellectual Property Law
19 Association.

20 The AIPLA is an organization of over
21 15,000 patent attorneys and agents, and they come
22 from private practice, corporate practice,

1 government, academia. And they are involved in
2 litigation, prosecution, and all types of IP
3 business transactions. And the AIPLA, we really
4 appreciate the opportunity to give comments today.
5 I want to make it clear that these are preliminary
6 comments. AIPLA is ongoing in terms of soliciting
7 input from all of its members and, hopefully,
8 we'll be giving detailed written comments to the
9 Patent Office in the very near future. And,
10 hopefully, those comments will be helpful to the
11 PTO to achieve the balance and move forward with
12 respect to the issues that we're talking about.

13 And I talk about balance, I think the
14 AIPLA understands that there may be a need for a
15 higher level of transparency in certain instances
16 and a certain level of transparency, but not at
17 the cost of being overly burdensome to each and
18 every patent applicant that files at the PTO. So
19 finding the balance is something that AIPLA is
20 interested in working with the PTO to achieve.

21 That said, I'll mention some comments
22 today with respect to the specifics of the

1 proposal that the PTO has announced and put out.
2 First of all, we have some concerns. The AIPLA
3 has some concerns with respect to those specifics.

4 Number one, we believe that the rule as
5 it's currently written may be overly burdensome to
6 each and every patent applicant. And it may be
7 that the issue or perceived problem to be
8 addressed is more of a situation that would not
9 encumber each and every patent applicant. In
10 other words, there might be a subset or a smaller
11 subset of patent applicants or patent owners that
12 this issue could be addressed with.

13 We've heard a lot of testimony today
14 about litigation. Perhaps -- perhaps -- this is a
15 situation where those patents that are in
16 litigation or where demand letters have been filed
17 or there's an attempt to enforce a patent, maybe
18 that is a more proper subset of individuals and
19 owners that should be required to address or to
20 give some level of transparency. But, again, we
21 hope that this would not be at the expense of each
22 and every applicant in an overly burdensome way.

1 And I reserve the fact that AIPLA will give you
2 some more specific comment with respect to that
3 issue.

4 This is somewhat repetitive of what we
5 heard a little bit earlier, but the bottom line is
6 it sounds simple to just explain who the owner is
7 or who the attributable ownership would be, but
8 it's not. When you look into the definitions and
9 you look into the process for determining that, it
10 may not be as simple as one might expect. For
11 example, you know, this may be a legal analysis
12 that requires considerable effort. There may be
13 situations where foreign entities and foreign laws
14 -- or knowledge of foreign entities and law are
15 required.

16 And, again, not to be repetitive, but
17 the requirements, the actual requirements, of what
18 needs to be reported, you know, according to the
19 current proposal may be somewhat vague and
20 misunderstood and could lead to some Monday
21 morning quarterbacking should a litigation be
22 filed and during litigation a possible defendant

1 might challenge a situation that occurred during
2 the prosecution, an innocent situation that
3 occurred during the prosecution. So we have that
4 concern.

5 Another concern we have is the penalty
6 of abandonment if not complied with. We think
7 that's a pretty harsh penalty and situation. And
8 that's another situation where it's possible that
9 that could bring up some unintended consequences
10 with respect to malpractice, with respect to
11 possible violations of duty of candor, and so on,
12 and somewhat weaken a patent and the value of a
13 patent.

14 Another situation that we have a concern
15 with is compliance with this rule may require
16 disclosure of some confidential business
17 information. One example might be exclusive
18 license arrangements and other confidential
19 business information. And we're not quite clear
20 whether the PTO has the authority to require that
21 kind of business information to be reported and
22 made public.

1 I'll finish up with a couple of maybe
2 more specific issues we have, specifically in Rule
3 217(b) as proposed. The definition of -- and this
4 has been mentioned earlier -- "foundation,"
5 "fund," or "institution" may be unclear. And they
6 are incorporated by reference, as one other
7 speaker mentioned, from another portion of the CFR
8 unrelated to the current patent rules. We think
9 that 217(c) [sic] may be vague in terms of the
10 types of agreements that are covered or required
11 and the term "vesting" and what that means, and
12 that may be difficult to understand and comply
13 with. In 271(d) [sic] the terms "entity,"
14 "control," and "hold" override other definitions
15 in other sections of the CFR. And we'll explain
16 that more fully when written comments are
17 submitted to the PTO.

18 And then there's this exception in
19 271(e) with respect to governmental bodies are not
20 an entity, so if you have a situation where a
21 governmental institution or body is, in fact,
22 involved in an ownership of an application and by

1 definition that's not an entity, then what do you
2 report? And is there a failure to report in that
3 situation? And could that jeopardize a patent
4 application or a patent?

5 So those are some of the specifics. I
6 think, you know, generally, what the AIPLA would
7 like to do is to work closely with the PTO to find
8 the right balance between the need for
9 transparency, the level of transparency needed,
10 and the situations where transparency may be
11 needed without overburdening and making it too
12 complicated and costly and dangerous for patent
13 owners.

14 And with that, I thank you for allowing
15 us to make those comments.

16 MS. GONGOLA: Thank you very much, Mr.
17 Godici. Our third witness is Marcia Chang on
18 behalf of Hewlett- Packard. Ms. Chang.

19 MS. CHANG: Hi, everyone. Good morning.
20 It's a pleasure to be here today on behalf of HP;
21 Curt Rose, our SVP, deputy general counsel, and
22 chief IP counsel; and Bob Watson, our VP and

1 associate general counsel to present our views on
2 the proposed attributable owner rules.

3 I think it's great that USPTO's
4 organizing these hearings to encourage debate on
5 the main IP issues that are affecting our
6 innovation-based economy. We think it's so great
7 that we are doing it twice. My colleague, Scott
8 Pojunas, has already presented HP's remarks in the
9 East Coast hearing, and I'm here to cover the West
10 Coast. So thank you, USPTO, its representatives
11 in the room, as well as U.C. Hastings School of
12 Law for hosting, and everyone who came here to
13 listen.

14 I would like to start by saying that as
15 the director of patent development for HP Labs, I
16 have the privilege of working with some of the
17 best and brightest minds in the industry on
18 innovations that may be 3, 5, 10 years out.
19 Protecting these innovations allows HP to recoup
20 its R&D investments and deliver exciting products
21 to the market, like the inkjet printer, e-print,
22 data centers in POD, power-efficient servers, and

1 softer defined networking, and many others.

2 As you know, HP has a vast patent
3 portfolio with more than 37,000 patents and 16,000
4 pending applications worldwide. We are a pretty
5 significant stakeholder in the patent system and
6 have a significant interest in ensuring that the
7 system functions as effectively as it possibly
8 can. HP continues to support transparency in
9 patent ownership and the proposal to require
10 submission of attributable owner information at
11 various points throughout the life cycle of a
12 patent.

13 When we think about transparency, I
14 think it's important to remember that a patent by
15 its very nature is affected with public interest.
16 And this public interest is best served when we
17 have full and adequate disclosure of information
18 that is a fundamental part of the quid pro quo of
19 the patent system. In exchange for full
20 disclosure, patent rights are granted. The word
21 "patent," after all, is derived from the Latin
22 patere. That means to lie open. And it's in the

1 spirit of transparency and full disclosure that HP
2 supports the proposed rules. We are currently
3 investigating all the proposed provisions and will
4 provide our written comments next month.

5 We agree with the benefits stated in the
6 notice. First, providing ownership information
7 would allow for an increased economic efficiency
8 in the marketplace. Lack of transparency
9 introduces significant transaction costs.
10 Receiving and disseminating information regarding
11 the attributable owner would enable innovators to
12 identify the patent owner and seek out licenses in
13 an efficient manner.

14 Second, providing ownership information
15 would level the playing field in licensing and
16 litigation. As we know, some parties rely on
17 intentional obfuscation of the chain of title to
18 gain an upper hand in licensing negotiations and
19 litigation. Now, this is a genuine problem, as
20 some of you have pointed out. Based on extensive
21 research involving numerous public data sources,
22 we have identified literally thousands of shell

1 companies that own patents.

2 Third, providing ownership information
3 would enable attorneys to more effectively serve
4 the critical function of managing risks of their
5 clients. The identity of the owner of a patent is
6 a key consideration with performing a patent
7 clearance analysis. Without ownership information
8 readily available, it becomes significantly more
9 difficult when clearing patent rights to determine
10 whether to seek a license, design-around, or avoid
11 entering a market entirely.

12 And finally, providing ownership
13 information would result in significant advantages
14 to the USPTO in examination and post-grant
15 proceedings as spelled out in the proposed rules.

16 HP has carefully evaluated the costs of
17 complying with the proposed rules with respect to
18 our portfolio and we believe that the benefits of
19 the proposal justify the costs. We believe that
20 the attributable owner information could be
21 gathered with some costs and process modifications
22 in the beginning, but could ultimately become a

1 routine part of our processes. We would like to
2 emphasize that all stakeholders in the patent
3 system, large and small, have a responsibility to
4 the public to ensure that the patent system works
5 as effectively as it possibly can. There will
6 inevitably be some additional costs in identifying
7 and providing the attributable owner information,
8 but it is incumbent on all parties who benefit
9 from the patent system to shoulder some of the
10 burdens in ensuring that the system optimally
11 serves its intended purposes.

12 In terms of the proposed definitions of
13 "attributable owner," we believe that this section
14 of the proposal warrants the most discussion. As
15 we know, there are two categories for attributable
16 owner: Titleholders and enforcement entities.
17 And information required to be reported for each
18 category also needs to require information of the
19 ultimate parent entity.

20 For titleholders, Section 127.1(a)(1)
21 identifies an entity that exclusively or jointly
22 has been assigned title to the patent or

1 application. We believe the ownership in almost
2 all cases in this situation is a straightforward
3 question and this will be relatively simple to
4 comply with.

5 For enforcement entities, we have
6 Section 127.1(a)(2) identifying an entity
7 necessary to be joined in a lawsuit in order to
8 have standing to enforce the patent or any patent
9 resulting from the application. The question of
10 identifying entities under this section is much
11 more complex and, ultimately, turns on the
12 analysis of the terms of an agreement to identify
13 the (inaudible) rights that has been transferred.
14 We believe that this provision or some
15 modification of this provision capturing
16 enforcement entities is absolutely necessary for
17 the rules to have any teeth. In the absence of
18 this provision, the public will be unable to
19 determine parties that could potentially assert
20 the patent other than the legal titleholder. This
21 will leave room for parties to continue to obscure
22 enforcement entities through contractual

1 arrangements. For example, without this provision
2 or some variation, a privateer granted an
3 exclusive license could remain obscure.

4 The same could be said for Section (c),
5 which is similarly needed to prevent gamesmanship
6 designed to obscure the attributable owner.
7 Although it is a fact of specific inquiry we have
8 evaluated the prospect of identifying the parties
9 implicated under this section with respect to our
10 portfolio. And although HP has, indeed, numerous
11 exclusive licenses granted from our IP holding
12 company to other subsidiaries, we could provide
13 the requested information with some modification
14 to our processes.

15 So HP uses a third-party service
16 provider to maintain a database with information
17 on our patent portfolio, which includes
18 identifying information documents and data on
19 encumbrances impacting particular patent assets,
20 such as exclusive licenses. And this data could
21 be assessed at each key checkpoint in the patent
22 life cycle to provide the attributable owner

1 information. It is our view that it is good
2 practice in the ordinary course of business for an
3 entity, whether large or small, to understand the
4 exclusive licenses -- excuse me -- that impact its
5 portfolio.

6 This is a key question for licensors
7 that grant licenses to subsidiaries or external
8 parties. For example, when granting an exclusive
9 license it is critical to know whether any
10 exclusive licenses have already been granted and,
11 if so, the impact these prior licenses would have
12 on the new license.

13 Existing encumbrances are also key
14 information for any entity that it's involved in
15 monetization of its assets. For example, when HP
16 sells an application or patent, it is an important
17 step in our process to accurately identify all
18 encumbrances that impact each asset so that the
19 encumbrances can be released or passed along to
20 the purchasers with the purchasers' knowledge.

21 Some parties have claimed that
22 disclosures of the attributable owner would raise

1 confidentiality concerns. From HP's perspective,
2 with respect to our portfolio, this is not a major
3 concern. As with many corporations, we provide
4 licenses from our IP holding company to
5 subsidiaries, and the existence of these
6 subsidiaries is not something we deem to be
7 confidential -- I mean, the entities. For
8 example, when royalties flow between the
9 subsidiaries, we are required by law to disclose
10 the existence of such entities to tax authorities
11 and this is public information.

12 In terms of the ultimate parent entity,
13 we think the benefits of the proposal depend on
14 the ability to identify the party that ultimately
15 controls the actions of the identified entity.
16 For example, when the entity identified under
17 Section (a) is a subsidiary or a shell company,
18 the full benefits of the proposal would only be
19 obtained if the corporate parent was also
20 identifiable. We believe the ultimate parent
21 entity can be identified relatively easy in most
22 cases. If the entity identified in Section

1 127.1(a) is a company, the ultimate parent or
2 entity which is not controlled by any other entity
3 will be the highest level entity in the corporate
4 structure in the large majority of cases. This
5 entity is already readily known or easily
6 identified by the applicant or patentee. And if
7 the entity is an individual, the ultimate parent
8 company will simply be that person.

9 So in most situations, we believe that
10 the ultimate parent will remain constant, so the
11 determination of the ultimate parent entity will
12 need to be made at the beginning of the process
13 and confirmed at relatively infrequent intervals.
14 The identification of the ultimate parent entity
15 will only need to be made once per entity, not on
16 a per asset level. So the costs of providing this
17 information are relatively minimal.

18 In terms of timing of providing
19 information to the USPTO, we continue to believe
20 that the information should be submitted at
21 relatively frequent intervals during the pendency
22 and after grant to ensure the attributable owner

1 information is current. Most of the required
2 information can be submitted at key checkpoints
3 when the information could be provided in
4 conjunction with other submissions. I believe the
5 proposed rules mention five checkpoints, but I
6 want to focus on four. These four checkpoints
7 would allow for the information to be provided
8 with minimal cost and burden to the owners.

9 First checkpoint is at application
10 filing. Ownership of the application is a key
11 question. Assignments are obtained and a
12 petitioner determines whether the applicant will
13 be the inventors or an assignee. We suggest
14 allowing applicants to provide this information in
15 an application data sheet or in some other newly
16 created form for providing this information. We
17 also agree with the proposed approach of mailing a
18 notice of missing parts when the attributable
19 owner information is omitted as we think this will
20 minimize the potential for abandonment due to an
21 unintentional omission.

22 The second checkpoint is when ownership

1 changes during the pendency. We support this
2 disclosure, as well. Whether in the form of a
3 purchase of a single patent or a merger
4 acquisition of a portfolio of significant size, a
5 party will generally be well aware of the
6 implicated assets and could readily provide this
7 information to the USPTO.

8 We do believe that the Office should
9 consider expanding this to include changes to
10 ownership after the patent grants. If this
11 provision were not included, post- grant updates
12 would be limited to maintenance fee payments and
13 PTAB proceedings, which will be four years between
14 maintenance fee windows or well over four years
15 after the final maintenance fee payment. This
16 time period seems too long, particularly in
17 quickly moving technology areas and because
18 parties often will retain rights to patents with
19 the intent of immediately asserting or licensing
20 them. We think this would warrant further
21 investigation, where we believe that the USPTO
22 arguably has the rulemaking authority for this

1 requirement post-grant.

2 When ownership changes, either during
3 the pendency or after the patent grants, the
4 information could be provided using the newly
5 created form or using an automated system for bulk
6 uploads.

7 The third key checkpoint is at the time
8 the application is allowed. At the time of
9 allowance, we know ownership is examined to
10 determine whether the issue fee should be paid and
11 whether the assignee will be listed on the face of
12 the patent. The attributable owner information
13 could be provided concurrently with the issue fee
14 payment via submission of another, you know, newly
15 created attributable owner form or, alternatively,
16 by simply modifying the issue fee transmittal
17 form.

18 The fourth checkpoint is with payment of
19 maintenance fees. Again, a patent owner will only
20 pay maintenance fees for the patent it owns, so it
21 would be a natural point in time to confirm or
22 provide attributable owner information. We

1 recommend a couple of changes to this section.

2 The first change is to modify the
3 language that says, "prior to the date the
4 maintenance fee is paid," to "prior to or
5 concurrently with payment of the maintenance fee."
6 Now, we believe this is needed to allow for
7 updates of the information at the same time as the
8 payment, such as when the information is provided
9 by a third-party payment service.

10 The second change is to introduce a
11 penalty for failure to provide the information
12 with the maintenance fees. We suggest that the
13 patent lapse in this situation consistent with the
14 other provisions.

15 One key aspect of this is to enable
16 third-party maintenance fee providers to make
17 updates on behalf of a patent owner. We
18 understand the USPTO is considering a project that
19 would modify the storefront to allow patent owners
20 or their designees to upload a data file for bulk
21 payment of maintenance fees. This would be a
22 natural extension of the proposal is to allow the

1 data files to also specify a list of entities that
2 qualify and for each such entity the ultimate
3 parent entity.

4 For HP specifically, we would need to
5 investigate this further, but we would envision
6 our service provider pulling the necessary data
7 from our databases, generating the data file in
8 the required format, and then uploading it to the
9 USPTO along with maintenance fee payments. We
10 would point out that this method would raise the
11 possibility of another party inadvertently
12 updating the attributable owner information. If,
13 for example, there's an error in the data, we
14 would suggest providing owners with a method of
15 correcting the information in such cases without
16 the need for a petition or fees. The method of
17 uploading a data file could also be naturally
18 extended to allow assignees to make bulk updates
19 of attributable owner information when ownership
20 changes during the pendency and after the grant of
21 a patent.

22 Now, the notice also solicits input on

1 whether three months is sufficient time to provide
2 this information. We believe that three months is
3 generally sufficient, assuming that a method is
4 provided for the bulk uploads of the information
5 for large ownership changes.

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

19 Again, thank you for the opportunity to
20 speak at this hearing and we look forward to
21 collaborating with the USPTO and other on
22 implementing these rules.

1 MS. GONGOLA: Thank you, Ms. Chang. Our
2 next witness this morning is Professor Robin
3 Feldman from the University of California Hastings
4 School of Law. Professor Feldman.

5 MS. FELDMAN: Thank you. We are honored
6 to have the USPTO here for its hearings and
7 appreciate the opportunity to contribute thoughts.

8 The patent system is quintessentially a
9 notice system. And with its evolutionary
10 ancestor, real property, patents ideally are
11 intended to provide notice to all the boundaries
12 of that which is claimed. So, for example, a 2013
13 governmental report which cited scholars Bessette
14 and Moyer noted the following: In an optimal
15 patent regime patent property rights are clearly
16 defined and easily determined so that the world is
17 on notice as to their existence, their scope, and
18 ownership. This notice function enables people to
19 avoid infringement, negotiate permission to use
20 others' IP, and maximize efficiency, such as by
21 not keeping all inventions as trade secrets or
22 doing R&D on inventions already claimed by

1 somebody else.

2 In general, information is particularly
3 important at this stage in the evolution of the
4 patent system. Although licensing and trading of
5 patent rights unrelated to product development is
6 not new, the scope and scale of such modern
7 activities are unusual. So large numbers of
8 patents that would not have garnered a return in
9 the past are being separated out from any
10 underlying product and transferred in the form of
11 commoditized tradable rights. As this market for
12 patent monetization develops and expands one must
13 think of it in classic market terms, and this
14 includes ensuring the flow of information that's
15 necessary to establish an efficiently functioning
16 market.

17 One can begin with a basic notion that
18 markets function better when players in the market
19 can actually identify each other. The ability to
20 know which parties hold an asset and how to reach
21 them is an essential starting point for any
22 market. Moreover, bargaining is more efficient if

1 one knows with whom one is bargaining. This type
2 of information can avoid the confusion and
3 misinformation that can result in wasteful
4 transaction costs. And to put it simply, shell
5 games and hide-and-seek rarely make for an
6 efficiently functioning market.

7 With patents, however, the rights are
8 not single- dimensional. Given the potential to
9 separate and distribute patent rights in various
10 configurations, identifying who is the owner of
11 the right is only the beginning. Depending on the
12 rights structure established for a particular
13 patent key questions could involve who has the
14 right to assert the patent? Who has control to
15 various extents of assertion of a patent? In
16 addition, given the convoluted structures,
17 understanding the money flow, regardless of formal
18 control structures, is also an essential part of
19 understanding who is in control in the broadest
20 sense.

21 The question of who are the parties
22 implicates information about the territory

1 claimed. The ability to see who controls a patent
2 and how that patent is being asserted can give
3 notice to the public of what the patent holder
4 believes is the appropriate footprint of the
5 patent. That footprint may emerge not simply in
6 one assertion, but through the full body of
7 assertions. In particular, a patent in one field
8 that is being asserted in another field puts other
9 players on notice, allowing them to plan and
10 bargain accordingly.

11 At another level -- I'm sorry, at
12 another perspective, information is a great
13 leveler. Numerous scholars and commentators have
14 noted that the economics of patent litigation
15 allow patent holders to game the system today. In
16 simplified form, it can cost 600,000 to \$6 million
17 to challenge a single patent demand in court, and
18 these costs increase in the case of multiple
19 patents or larger patent portfolios. As a result,
20 a patent holder can launch an attack on a target
21 for minimal expenditure, offering settlement costs
22 below what it would cost the target to challenge

1 demand; or, in some cases, below what it would
2 cost the target to even fully analyze the demand.
3 These economic realities may encourage targets to
4 settle regardless of whether the patent is valid
5 or validly asserted against them.

6 Market information can be helpful in
7 addressing these bargaining asymmetries that are
8 reflected in the economics of modern patent
9 assertion. Although it's certainly no panacea,
10 accused infringers may benefit from being able to
11 understand clearly all of the parties who are
12 involved in the patent, to see others who have
13 been targeted, and see the results of different
14 assertions that the patent holders and its related
15 entities have made.

16 Information on various parties who have
17 interest in the patent has efficiency information
18 for the judicial system, as well. Properly
19 identifying those with relevant interest can avoid
20 duplicative filings, can enhance the potential for
21 an efficient settlement process. In this context,
22 courts may benefit from being able to identify all

1 of the relevant parties.

2 This, of course, is only useful if the
3 court is able to bring all of those parties into
4 the proceedings where appropriate, an issue that
5 implicates judicial joinder rules. Nevertheless,
6 the question of whether and when it is appropriate
7 to join parties must begin with the information on
8 who is in the universe of potential interests.
9 Such information provides the framework if courts
10 or if regulators wish to hold those with pecuniary
11 interests responsible for damages that may have
12 been imposed in the pursuit of their financial
13 interests.

14 And finally, market information on the
15 identity of those who hold patents and who hold
16 interests in patents and the territory they are
17 claiming with those patents is important from a
18 societal perspective, as well. With the emergence
19 of the new market for patent monetization it will
20 be essential to develop the type of oversight that
21 can identify inappropriate behavior when it occurs
22 and cabin that behavior, as well as identifying

1 patterns that are likely to lead to market
2 inefficiencies. Allowing vast networks of hidden
3 behavior has the happy coincidence of preventing
4 regulatory actors from observing that behavior.

5 From a societal perspective, the result
6 is less than optimal. Regulatory actors, such as
7 public and private antitrust actors, as well as
8 securities regulators where appropriate, must be
9 able to connect the dots that can reveal a
10 troubling picture where it occurs. Such
11 regulatory transparency is particularly important
12 for patents. Patents are government entitled,
13 which are granted with specific goals in mind.
14 When an active and complex trading market develops
15 for those rights, it is essential that society has
16 the ability to determine whether that market is
17 functioning appropriately and whether it serves
18 the goals of the government grants.

19 One can argue that the process of
20 eliciting information on the universe of potential
21 parties will have efficiency costs. Parties will
22 have to spend time filing the information and

1 disputes about the adequacy of information
2 provided inevitably will arise. There are always
3 costs with providing information to the market.

4 The key is finding an appropriate
5 mechanism to minimize those costs while providing
6 the information necessary for efficient
7 transactions and settlement. Most important, any
8 such efficiency costs are likely to pale in
9 comparison to the current inefficiencies of the
10 patent litigation system and the patent demand
11 system. Shadow boxing is rarely an efficient
12 judicial sport.

13 Turning to the USPTO proposals
14 themselves, I wish to commend the Patent and
15 Trademark Office for its revised set of proposals
16 published in January of 2014. These new proposals
17 are a much-needed effort to strike at the heart of
18 the patent transparency problems. By requiring
19 the reporting of so-called enforcement entities,
20 ultimate patent entities, and hidden beneficial
21 owners, the proposals provide the opportunity to
22 make transparency a reality in the patent system.

1 In drafting the final language, I would
2 suggest that it will be important to tighten up
3 areas of the current proposals that may allow
4 patent holders to evade the intent of the
5 regulations. And to this end I would like to
6 offer three suggestions.

7 First, ultimate patent entities in the
8 proposed rules are defined in reference to the
9 Hart-Scott-Rodino threshold. This designates the
10 point at which one must file with the Federal
11 Trade Commission for antitrust clearance of a
12 merger or acquisition. The Hart-Scott-Rodino
13 sieve is aimed at capturing large players.
14 Information sufficient for an optimally
15 functioning patent market, however, would be
16 necessary for a patent regardless of whether the
17 patent holder is a large or small player. In
18 addition, even when anti-competitive behavior is
19 concerned, the Hart-Scott- Rodino threshold may be
20 ineffective in the complex world of patent
21 monetization that has developed in the last few
22 years.

1 This concern is more than theoretical.
2 I have chronicled in some of my writing the rise
3 of one product company that purchased a set of
4 broadly worded patents and asserted them
5 aggressively against competitors, as well as
6 engaging in an expansive acquisition campaign of
7 buying more than 20 competitors and patent
8 portfolios in the field. None of the individual
9 transactions appear to have triggered the
10 Hart-Scott-Rodino reporting requirement. The
11 point is simply that antitrust thresholds are
12 unlikely to be sensitive enough to serve as the
13 appropriate analogy for patent transparency
14 regulations and I would urge broadening of that
15 notion.

16 My second suggestion relates to the
17 USPTO's proposed concept of hidden beneficial
18 owners. Hidden beneficial owners are described as
19 those who try to avoid the need for disclosure by
20 temporarily divesting themselves of ownership
21 rights through contractual or other arrangements.
22 And there's some additional definition in the

1 proposed rules.

2 The concept of casting the net widely to
3 include those who are trying to hide is an
4 important one in patent monetization. However,
5 looking only for those who temporarily divest
6 could risk missing a considerable amount of
7 evasive behavior. Complex patent aggregation and
8 monetization entities may be permanently designed
9 to avoid transparency, neatly bypassing
10 requirements related to temporary divestment. The
11 hidden beneficial owner section explains that the
12 section is "designed to discourage intentional
13 shielding of such ownership interests." And that
14 is language that could conceivably apply more
15 broadly than temporary structures. Following on
16 the heels of the temporary divestment language,
17 however, the broader language may have difficulty
18 standing on its own.

19 The notion of hidden beneficial owners
20 will be critical to transparency. For example,
21 National Public Radio has reported on the shell
22 company Oasis Research, noting that the company

1 distributes 90 percent of its net profits to
2 Intellectual Ventures. At a panel at Stanford Law
3 School last Friday, one of the founders of
4 Intellectual Ventures suggested that Intellectual
5 Ventures always sues in its own name. When asked
6 about the lawsuits filed by Oasis Research, the
7 Intellectual Ventures founder responded that IV
8 has simply sold the assets and does not control
9 Oasis Research. This perspective is an example of
10 how companies can structure their relationships
11 with shell companies to try to obtain the
12 benefits, while maintaining sufficient distance to
13 try to allow any disclosure obligations that might
14 be imposed in the future.

15 For this reason, I would suggest that
16 reference to certain securities law disclosure
17 concepts could be tremendously useful, and I'll
18 provide additional details in my written comments.
19 Explicitly referencing the securities regulation
20 framework for terms such as "beneficial and
21 pecuniary interests" and "disclosure avoidance
22 language" brings the wisdom of experience gained

1 with the use of those terms across time.

2 And then finally, the timing of the 2014
3 proposal requirement reportings are seriously
4 limited. In its proposal patent applicants are
5 required to provide information at the time of
6 filing for a patent, have an ongoing obligation to
7 update that information while the patent is
8 pending and before it is issued. Once the patent
9 has issued, however, the patent holder is only
10 required to update information when maintenance
11 fees are due and at the time of post-issuance
12 proceedings before the PTO. Maintenance fees are
13 due at the PTO only three times in the 20-year
14 life of the patent: At 3 years, 7 years, and 11
15 years.

16 The advantage of limiting transparency
17 requirement to those few moments lies in a lower
18 production burden on patent holders. Modern
19 patent monetization takes place throughout the
20 lifetime of the patent, however, an occasional
21 information is unlikely to provide the robust
22 information necessary for an openly functioning

1 market.

2 In short, patents are imbued with a
3 public interest by virtue of the fact that they
4 are a government grant, bestowed only for purposes
5 enshrined in the Constitution itself. As with the
6 trading of public securities, the trading of any
7 asset imbued with the public interest must be
8 sufficiently regulated to ensure proper
9 functioning of that trading market.

10 Once again, I commend the USPTO for
11 these bold and critical steps that have the
12 potential to bring clarity and order to the patent
13 process and to the patent markets themselves.
14 Thank you very much.

15 MS. GONGOLA: Thank you, Professor
16 Feldman. Our last witness this morning is Paik
17 Saber on behalf of IBM Corporation. Mr. Saber.

18 MR. SABER: Ms. Gongola, thank you so
19 much for the opportunity to offer very brief
20 comments on behalf of IBM Corporation. My name is
21 Paik Saber and I would like to offer very brief
22 comments.

1 First of all, IBM supports the principle
2 underlying USPTO's efforts to obtain more accurate
3 ownership information. However, there are
4 significant concerns about the proposed rule. We
5 believe the Office should conduct a pilot program
6 to determine the scope of the useful information
7 which can be reasonably collected from applicants
8 and patentees without creating undue burden. Such
9 a pilot program, should the Office to undertake,
10 should take place after careful review of all the
11 comments submitted by the public regarding the
12 proposed rules. The Office could even consider
13 having roundtable discussions after careful review
14 of the comments to determine the appropriate
15 parameters for such a pilot program, such as
16 whether the pilot program should be mandatory or
17 should it be voluntary, what should be its
18 duration, and the scope of the information sought.

19 IBM will be submitting written comments
20 to the Office in which we will elaborate on our
21 suggestions about a pilot program, as well as our
22 concerns with a number of the proposed rules.

1 Thank you so much for the opportunity.

2 MS. GONGOLA: Thank you very much, Mr.
3 Saber. At this time, are there any others in our
4 in-person audience who would like to share remarks
5 with us about our attributable owner proposed
6 rules?

7 Well, this will then conclude our
8 attributable owners proposed rulemaking hearing.
9 I want to again thank the University of California
10 Hastings School of Law for hosting us and all of
11 you for attending both our in-person and our
12 webinar audiences today.

13 (Whereupon, the PROCEEDINGS were
14 adjourned.)

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1 CERTIFICATE OF NOTARY PUBLIC

2 COMMONWEALTH OF VIRGINIA

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

17

18 (Signature and Seal on File)

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

21 My Commission Expires: November 30, 2016

22 Notary Public Number 351998

