

Comments In Response to the Request for Comments on
"Changes To Require Identification of Attributable Owner," 79 FR 4105 (January 24, 2014)

By, Richard Neifeld, Neifeld IP law, PC

Copied below are my comments emailed to the USPTO on January 30, 2014, to the email address specified for comments on the propose patent rules in "Changes To Require Identification of Attributable Owner," 79 FR 4105 (January 24, 2014).

Attention: James Engel, Senior Legal Advisor, Office of Patent Legal Administration, Office of the Deputy Commissioner for Patent Examination Policy

Dear Mr. Engel:

I am a patent attorney and founder of Neifeld IP Law, PC. These comments represent my personal views based upon almost 20 years in the practice of patent law. I write on behalf of myself, in the interests of my clients, and for the improvement of our IP system. In summary, I suggest you:

- do not incorporate by reference definitions from unrelated volumes of the CFR;
- revamp the propose rules to reduce their burden on applicants and patentees by having the rules presume that no submission of change of attributable ownership is a representation that attributable ownership has not changed;
- reset your costs estimates based upon the object data noted below to reflect the very real and substantial compliance burden;
- reduce the regulatory burden by reducing the frequency of required notifications in view of the very large cost of compliance; and
- reset and reduce the penalty for non compliance to be commensurate in scope with the impact of noncompliance.

My summary of the proposed rules and comments follow:

Proposed rule 1.271 reads:

Attributable Owner § 1.271 Attributable owner (Real-parties-in interest for reporting purposes).

(a) The attributable owner of a patent or application includes each of the following entities: (1) An entity that, exclusively or jointly, has been assigned title to the patent or application; and (2) An entity necessary to be joined in a lawsuit in order to have standing to enforce the patent or any patent resulting from the application.

(b) The attributable owner of a patent or application includes the ultimate parent entity as defined in 16 CFR 801.1(a)(3) of an entity described in paragraph (a) of this section.

(c) Any entity that, directly or indirectly, creates or uses a trust, proxy, power of attorney, pooling arrangement, or any other contract, arrangement, or device with the purpose or effect of temporarily divesting such entity of attributable ownership of a patent or application, or preventing the vesting of such attributable ownership of a patent or application, shall also be deemed for the purpose of this section to be an attributable owner of such patent or application.

(d) The term "entity" used in this section includes: (1) Any natural person, corporation, company, partnership, joint venture, association, joint-stock company, trust, estate of a deceased natural person, foundation, fund, or institution, whether incorporated or not, wherever located and of whatever citizenship; (2) Any receiver, trustee in bankruptcy or similar official or any liquidating agent for any of the entities described in paragraph (d)(1) of this section, in his or her capacity as such; (3) Any joint venture or other corporation which has not been formed but the acquisition of the voting securities or other interest in which, if already formed, would be an attributable owner as described in this section; or (4) Any other organization or corporate form not specifically listed in section that holds an interest in an application or patent.

(e) Notwithstanding the provisions of paragraph (d) of this section, the term "entity" does not include any foreign state, foreign government, or agency thereof (other than a corporation or unincorporated entity engaged in commerce), and also does not include the United States, any of the States thereof, or any political subdivision or agency of either (other than a corporation or unincorporated entity engaged in commerce).

(f) When there is a requirement to identify the attributable owner, each entity constituting the attributable owner must be identified as follows: (1) The identification of a public company must include the name of the company, stock symbol, and stock exchange where the company is listed; (2) The identification of a non-public company must include the name of the company, place of incorporation, and address of the principal place of business; (3) The identification of a partnership must include the name of the partnership and address of the principal place of business; (4) The identification of a natural person must include the full legal name, residence, and a correspondence address; and (5) The identification of any other type of entity must include its name, if organized under the laws of a state, the name of that state and legal form of organization, and address of the principal place of business.

(g) Except for shareholders of a public company, the presence of a corporate form, partnership, or other association, does not preclude an entity who may also be a shareholder or partner in such an identified attributable owner from a requirement to be separately identified as an attributable owner if the entity is also described in paragraph (a), (b) or (c) of this section as an entity qualifying as an attributable owner.

You should not incorporate definitions from other CFR sections into 37 CFR. The reasons for the definitions in 16 CFR 801.1 are for purposes unrelated to attribution of ownership of patents and are likely interpreted in a manner inconsistent with the goals of identifying attribution of ownership of patents. Specifically, the HSR Act's (The Act to which 16 CFR 801 is directed) goals of determining of size of a set of related entities for purposes of determining thresholds for antitrust review, are poorly suited as definitions of attributable owners of patents. Proposed rule 1.271(b) imports the definition in 16 CFR 801.1(a)(3) for definition of an ultimate parent entity. However, this definition introduces uncertainty into the meaning of an attributable owner in proposed rule 37 CFR 1.271. 16 CFR 801.1(a) reads as follows:

801.1 Definitions. When used in the act and these rules

(a)(1) Person. Except as provided in paragraphs (a) and (b) of §801.12, the term person means an ultimate parent entity and all entities which it controls directly or indirectly. Examples:

1. In the case of corporations, "person" encompasses the entire corporate structure, including all parent corporations, subsidiaries and divisions (whether consolidated or unconsolidated, and whether incorporated or unincorporated), and all related corporations under common control with any of the foregoing.

2. Corporations A and B are each directly controlled by the same foreign state. They are not included within the same "person," although the corporations are under common control, because the foreign state which controls them is not an "entity" (see §801.1(a)(2)). Corporations A and B* are the ultimate parent entities within persons "A", and "B" which include any entities each may control.

*Throughout the examples to the rules, persons are designated ("A", "B," etc.) with quotation marks, and entities are designated (A, B, etc.) without quotation marks.

3. Since a natural person is an entity (see §801.1(a)(2)), a natural person and a corporation which he or she controls are part of the same "person." If that natural person controls two otherwise separate corporations, both corporations and the natural person are all part of the same "person."

4. See the example to §801.2(a).

(2) Entity. The term entity means any natural person, corporation, company, partnership, joint venture, association, joint-stock company, trust, estate of a deceased natural person, foundation, fund, institution, society, union, or club, whether incorporated or not, wherever located and of whatever citizenship, or any receiver, trustee in bankruptcy or similar official or any liquidating agent for any of the foregoing, in his or her capacity as such; or any joint venture or other corporation which has not been formed but the acquisition of the voting securities or other interest in which, if already formed, would require notification under the act and these rules: Provided, however, that the term entity shall not include any foreign state, foreign government, or agency thereof (other than a corporation or unincorporated entity engaged in commerce), nor the United States, any of the

States thereof, or any political subdivision or agency of either (other than a corporation or unincorporated entity engaged in commerce).

(3) Ultimate parent entity. The term ultimate parent entity means an entity which is not controlled by any other entity.

Examples:

1. If corporation A holds 100 percent of the stock of subsidiary B, and B holds 75 percent of the stock of its subsidiary C, corporation A is the ultimate parent entity, since it controls subsidiary B directly and subsidiary C indirectly, and since it is the entity within the person which is not controlled by any other entity.

2. If corporation A is controlled by natural person D, natural person D is the ultimate parent entity.

3. P and Q are the ultimate parent entities within persons "P" and "Q." If P and Q each own 50 percent of the voting securities of R, then P and Q are both ultimate parents of R, and R is part of both persons "P" and "Q."

Proposed rule 1.271(b), marked up to show the definition incorporated from 16 CFR expressly incorporated therein, reads as follows "(b) The attributable owner of a patent or application includes the ultimate parent entity, that is an entity which is not controlled by any other entity, as defined in 16 CFR 801.1(a)(3) of an entity described in paragraph (a) of this section, where 'entity' is defined by 16 CFR 801.1(a)(2)." But 16 CFR 801.1(a)(2) contains the following undefined terms in the context of attributable owner of a patent: "foundation, fund, institution, society, union, or club, whether incorporated or not." What are unincorporated foundations, funds, institutions, societies, unions, and clubs for purposes of attributable ownership? Proposed rule 1.271(b) incorporates concepts from the HSR Act embodied in rule 801.1 that are not applicable to the goal of defining attributable ownership. The HSR Act relies upon a determination of cumulative size of related entities for determining whether the cumulative size is large enough to warrant review of a proposed merger for antitrust issues. No such concerns are present in the definition of attributable owner. As noted in 16 CFR 801.1(a)(2), the definition of entity appears to be limited to any legal relationship that "would require notification under the act and these rules." HSR notification is required only for entities exceeding monetary thresholds, thereby requiring reporting under HSR. In summary, the incorporation of definitions from 16 CFR relating to antitrust laws and entity size limits is ill advised. The Office should expressly define terms in 37 CFR that relate to patents, having terms specifically defined to suit the concept of attributable ownership, to avoid indefinite rules, confusion amongst practitioners, and unnecessary litigation.

Proposed rule 1.271(c) is vague. "(c) Any entity that, ... uses a [legal instrument] with the purpose or effect of temporarily divesting such entity of attributable ownership ... [is] an attributable owner of such patent or application". What does that mean? For example, would a 5% passive equity partner of a partnership that owns a patent be an attributable owner? In any case, proposed 1.271(c) conflates two distinct concepts: "purpose or effect of temporarily divesting" and "preventing the vesting of such attributable ownership". Your proposed rule should not refer to "Any entity" when referring to the first concept because a predicate of that

concept is that the entity is an attributable owner, and your rule should so state. But you pigeon-holed yourself by conflating the first concept with the "preventing the vesting of such attributable ownership" a precondition of which is that there is an entity that is not an attributable owner. And therefore you had to start this proposed rule referring to "An entity" instead of to "An attributable owner". Proposed 1.271(c) is difficult to interpret because two disparate concepts are contained in one run-on or compound sentence. Split the sentence up and make the two distinct sentences with one concept in each sentence, to make it intelligible.

Proposed 1.271(e) states that "(e) Notwithstanding the provisions of paragraph (d) of this section, the term "entity" does not include any foreign state, foreign government, or agency thereof (other than a corporation or unincorporated entity engaged in commerce), and also does not include the United States, any of the States thereof, or any political subdivision or agency of either (other than a corporation or unincorporated entity engaged in commerce)." This section excludes government and governmental organizations from compliance with attributable ownership rules. Why? Why do you elevate governments above private enterprises?. What public policy bides for not identifying when the attributable owner is a government or a state? Review of the proposed rule packages provides no answers, merely stating that "proposed § 1.271(e)) tracks the definition of entity in 16 CFR 801.1(a)(2)." However, 16 CFR 801.1(a)(2) relates to enforcing HSR by identifying transactions that might have anti-competitive effects large enough to warrant pre-transaction review. Why governments are excluded from HSR review does not seem relevant to why governments should or should not be excluded from rules requiring identification of attributable owners of patents. Why is proposed 1.271(e) present? If there is no treaty limitation, constitutional limitation, or the like, in requiring identification of attributable ownership from governmental organizations, you should remove this proposed rule. If not, you should explain why governments, ours and others, get 'free a pass' on identification of attributable ownership.

Proposed rule 1.271(f) provides for identification of various addresses for entities that are the attributable owner. However, this rule fails to require an address for receipt of service of process. Why not? Isn't the ability to serve with process the primary goal of requiring identity and address information for attributable owners? Why not expressly require that information to assist litigants?

Proposed rule 1.271(g) in conjunction with proposed rule 1.271(d) is overbroad. It sweeps into the list of passive participants disclosure of which would be burdensome and provide no societal benefit. It would dissuade investment in innovation due to privacy concerns.

Proposed rule 1.273 is overly burdensome to achieve its mandate of identifying attributable ownership. In the vast majority of applications the attributable owner is the applicant when there is no assignment filed at or shortly after the time of filing or US national stage entry for a PCT application, or is the assignee if such an assignment is filed. Proposed rule 1.273 would require yet an additional assertion of attributable ownership at the time of filing even in those case where the applicant or assignee is the attributable owner. Moreover, in cases where at time of filing there is no attributable owner identified as such, proposed rule 1.273 would burden the Office with having to generate and send yet another formalities paper requiring identification of the attributable owner. Moreover, rule 1.273 would require the applicant in the vast majority of cases to have to respond to that notice, at significant expense. The Office should instead

promulgate rules, like the small entity rule, where the assumption is that the information has been provided by the manner of filing (by paying small entity fees in case of the small entity rule, and by not filing an additional attribution of ownership document when filing an application). That change in the propose rule, will save great expense for both the Office, and the applicants, and accomplish the same goal.

Proposed rule 1.277 contains the same overly burdensome provision as proposed rule 1.273. Like 1.273, 1.277 should be revised to presume that lack of filing of a notice identifying the current attributable owner means there has been no change. Moreover, 1.277 is more than useless if proposed rule 1.275 is promulgated because it is merely redundant of the three month deadline specified in 1.275.

The section titled "4. Description of the projected reporting, recordkeeping and other compliance requirements of the proposed rules, including an estimate of the classes of small entities which will be subject to the requirement and the type of professional skills necessary for preparation of the report or record:" repeatedly characterizes compliance costs as negligible ("in many instances, reporting ownership information in compliance with this proposed rule will have negligible costs"; "Given the Office's records suggesting that many applications do not have more than one recorded assignment, in many instances applicants or patentees will likely be merely confirming the ownership information is unchanged, which should have a negligible cost."; "At subsequent instances when reporting was required (e.g., upon issue), the owner would merely be confirming that no change had occurred, which would have negligible cost. The Office presumes that reporting costs for these applications would be negligible, because the applicants would be indicating that they are the attributable owners, providing the same information they are providing elsewhere in the application."; and "that in many instances, when reporting is required under the proposed rule, applicants or patentees will be providing information that is readily known and available to them, and that can be provided easily and at negligible cost during the application process, at grant, or after grant.") The premises upon which these "negligible cost" conclusions are based are incorrect. First, there is a non negligible cost in reporting, per se, regardless of the availability of information being reported. Each time USPTO customer has to submit a paper, or fill in an additional line in a form, there is a cost. The notice properly notes that hundreds of thousands of patent applications are filed, issue fees paid, and maintenance fees paid, annually. Even a small cost multiplied by that huge number of notice requirements is a significant aggregate cost. And the sole data point provide by the office is from the 2012 roundtable. As noted at 79 FR 4116, right column, that:

The Office received input at this roundtable, including the suggestion that providing the attributable owner information might have a transaction cost of \$100, depending upon the inclusiveness of the definition of attributable owner (which was discussed under the rubric of "real party in interest" at the roundtable).

However, the \$100 figure certainly only included the cost of submission, not the additional costs with compliance by determining in each case at each compliance deadline whether there was a change in attributable ownership or not. The mere cost of preparation and submission of a PTO

form normally costs more than \$100. The total cost of determination of attributable ownership requires at a minimum the following actions on the part of anyone having duty to preserve another's rights:

- docketing a requirement for sending a written communication to a client requesting attributable ownership updates;
- docketing the requirement for filing an attributable ownership notice at any time required by the PTO;
- sending a written communication to the client requesting updated attributable ownership information;
- updating the log of activity noting the sending;
- updating docketing to remind for receipt of that information;
- confirming receipt of client communication providing updated attributable ownership information;
- preparing a document for USPTO filing containing the update of attributable ownership information,
- filing the notice in the USPTO;
- updating the activity log to show filing of the notice
- reporting the filing of the notice to the client.

The PTO assumes costs are negligible when all an agent does is confirm that there has been no change. However, even then the foregoing actions must occur to protect clients rights, that is, even when there is no change, all of the foregoing docketing, logging, PTO filing, and reporting functions must occur. To imply that these actions would cost only \$100 is incorrect, and it is inconsistent with published data for comparable PTO filings. For example, paying a maintenance fee is simpler than the requirements for docketing through reporting of an attributable ownership. This is because maintenance fees are a requirement that is certain at defined times after issuance. And maintenance fees need no or minimal explanation because they are self explanatory. In contrast, determining attributable owner, and even explaining the concept, takes the USPTO a few pages of proposed rules. The AIPLA Economic Survey has in the past been relied upon by the USPTO as objective evidence of costs. See most recently the fees promulgated under the AIA for practice before the Office. The AIPLA 2013 economic survey contains fees for paying maintenance fees. That survey shows that the mean charge for paying a maintenance fee was \$355 for all locations (Table I-112). Accordingly, the Offices cost estimates greatly underestimate the cost of compliance in each instance (as either negligible or \$100) and greatly underestimate the number of instances in which compliance costs occur (apparently based upon the 4% per year reassignment rate, instead of 100 % of all applications and patents upon each requirement for compliance). In fact, rough estimates based upon the objective information just provided shows that compliance costs will run several hundreds of millions of dollars, such as \$350 times roughly 700,000 compliance requirements annually. As with failures in existing docketing systems, there will also be an error rate of roughly 1 percent which will also result in several thousand petitions to excuse belated updating of attributable owner, each year, further burdening both the Office and its customers.

Finally, the punishment does not fit the crime. The proposed rules provide for abandonment of an application for which attributable ownership was not timely updated, unless the delay was unintentional in which case the application can be revived pursuant to rule 1.137. Why? Why should the application be abandoned? Because that is the punishment the Office has imposed in other situations? Other situations, such as failure to timely make a benefit claim, directly impact the timing of dissemination of the invention to the public, via publication. No such overriding concern exists for the very marginal impact identifying attributable ownership would have on patent quality or the planning of industrial activity by the Office's customers. The failure to identify an attributable owner is not so directly related to patentability, if at all, that this should be the punishment. The Office should instead have the punishment fit the offense, for example refusing to recognize a belated change in attributable ownership was intentionally delayed, absent petition. After all, the offense is failure to timely notify the Office of a change in ownership, and therefore the logical remedy is refusing to recognize such a change, absent petition. Not abandonment.

Truly, Richard Neifeld
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