PUBLIC HEARING ON THE STUDY OF INTERNATIONAL PATENT PROTECTION FOR SMALL BUSINESSES

UNITED STATES PATENT and TRADEMARK OFFICE
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USPTO PANEL

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MS. REA: We have a very important topic to discuss today. It's a very important hearing on international protection for small business; and that study we're required to prepare by Congress in the America Invents Act along with the Small Business Administration.

Now, Director Kappos and the entire team has been working very diligently towards implementing the various provisions of the historic America Invents Act. And this ongoing dialogue with our user community is vital for us to do our job well; not only for us to remain transparent, but also we want to ensure that your input is actually considered and it actually will help guide us as we develop the new provisions and as we see how the new patent system will play out. So this is very timely, and the earlier we can receive your comments, the better.

We have six studies in total that are actually mandated by Congress. And so we are going to be soliciting your input constantly on each one of those. Today, though, the most important mission is the
International Patent Protection For Small Businesses.

And in an effort to accomplish this mission, I'd especially like to thank at the far end Stu Graham, Saurabh Vishnubhakat who will be appearing later, Susan Hoffman, and to my right, David Chait, of the small business administration for their support in hosting today's hearing.

And, of course, we're grateful to those who are offering their testimony today, Timothy King, Morgan Reed, Alan Kasper, and Stanley Erck. We know we have at least one other individual with us today that will provide testimony afterwards. If those of you in the room, anybody would like to provide any comments, please do not hesitate to do so.

Now, embedded in the social contract between a patent and society is a timeless acknowledgement that the American marketplace rewards hard work, innovation and creativity, but when we take a moment to examine the way countries are doing business in the 21st Century, it's no question that information and commerce are cutting across global borders with increasing speed. And as innovators seek to tap markets abroad, it is
imperative that the international patent system provide
a consistent cost effective way to obtain reliable
patent rights in multiple jurisdictions.

Now, without adequate education on the
importance of foreign IP protection or what tools are
available to enforce patents overseas, small businesses
in particular are often unable to defend their
inventions against foreign lawsuits. And that's why the
Small Business Administration, along with the USPTO, are
looking at this study. And it gives us a chance to
earnestly evaluate your business practices concerning
intellectual property rights overseas. And we would
like you to help us see how we can devise a system that
empowers manufacturers to more readily acquire
protections globally.

Now, by reflecting on our current work and
what we have so far, we have some great work sharing
models, including the Patent Cooperation Treaty and the
Patent Prosecution Highway. We can assess those
existing tools and decide how they can help us decide
how to move to the next level. But your testimony is
especially important on how to finance whatever programs
we devise and what we think is best.

So we want to know your general costs for overseas filings, how they impact your bottom line, and how it impacts your ability to develop new products.

So any qualitative and quantitative data that you can provide us, as well as the Small Business Administration, will help us determine whether grants, subsidies, loan agreements, or new work sharing models should be used. We want creativity and innovation in developing a good scheme for advancing and leveling the playing field for international patent protection.

Now, we know that two out of every three new jobs in this country come from small and medium businesses. So focusing on your business needs and goals and assisting you in financing them is as much of our job as it is with reviewing and granting patent applications, and that we actually solicit your creativity right now. We have until November 8th for you to submit written comments. Our report is due to Congress by mid-January.

We realize that this is a very, very short time period and that it may be difficult for you to provide
your input, but any input that you have at this time, even if you don't have the whole picture and you just want to give us a segment of it, would be appreciated, because we can put all of the pieces together, because our job also has to be accomplished within a very short period of time. So today's thoughtful discussion is extremely important.

Now, I personally have to apologize. I cannot stay here for today's entire program. I have a conflicting engagement. And actually, it's another conference aimed at discussing tools and resources for the small business and independent inventor community in Washington D.C. So I am still focusing on your needs, but just a different venue.

But as we dive into the fundamentals and what we want to get addressed today, we want to address questions such as global IP protection matter for today's small business, what can actually help you better compete abroad, what are your past experiences. So you can talk from the past to present or you can be creative and innovate what is the best future playing field for you to compete with every other size industry.
So, again, I encourage you not to hold anything back. And I generally do look forward to your incites today and in the days to come, and I'd like to thank you.

Now I'd like to turn the podium over to David Chait with the Small Business Administration. They are our colleagues in developing this study and they are very interested in what you have to say as well. David?

MR. CHAIT: Thank you so much. I want to thank the USPTO for being a great partner in everything. You have very strong advocates among them, and it's just been a pleasure working with them.

First, I also want to take this opportunity to thank all of you for coming out today. As was mentioned, small businesses are a vital part of the economy. They represent over 99 percent of all firms and over 50 percent of the current workforce. They're also the engine of growth in this economy having created two out of every three new jobs over the past 15 years.

Now, SBA supports these businesses through a mix of capital, contracting and counseling programs. In fact, this past year was a record year in our loan
program portfolio where we supported over $30 billion in lending and touched over 60,000 small businesses.

Now, this was critical in filling market gaps, especially for those Main Street firms. But the entrepreneurs and high growth firms that many of you work for and represent here today are different, and they are critically important. Unlike Main Street businesses where there's churn, a business opens, a business closes, a business opens, high growth firms drive nearly all of the net new drive job creation each year studies have indicated.

As such we are here today with the critically important task to discuss methods to support businesses like yours. As a part of the America Invents Act, we're identifying the best ways to support international patent protection for small businesses. Such protection is a vital safeguard to support innovation and entrepreneurship and for growth and expansion. And it will also help us reach the president's goal of doubling exports by 2014 and supporting 2 million jobs.

As such, on behalf of Administrator Mills from the SBA, I want to thank you all for being here today
and for sharing your thoughts on international patent protection, specifically as we evaluate the gaps that exist in the market and the potential need for loans or grant programs to support and defray the cost of international protection.

I look forward to hearing your invaluable thoughts and ideas throughout the day. And I want you to know that your voice is continuously heard and we look forward to your thoughts. Thank you again.

MS. GONGOLA: Thank you, David.

Good afternoon, everyone. I'm Janet Gongola, the patent reform coordinator. I want to welcome you to the first of two hearings of the international patent protection study. The second hearing is going to be held next Tuesday, November 1st, at the University of Southern California, Gould School of Law. And we are very grateful to the administration and the staff at the law school for making our West Coast forum possible.

Now, for those of you in this room today who are at our East Coast forum, thank you so much for attending.

As I have indicated so far throughout the
implementation process, and I will be repeating for many, many months to come, your public input is essential for the Agency to be able to develop a 21st Century patent office.

We want our patent office to benefit small businesses, large businesses, independent inventors, and the entire IP system as a whole. Now, together under the America Invents Act, we have the chance to redefine the procedures by which an inventor secures patent rights in the United States. And today in particular, we have the chance to use the America Invents Act as a platform to brainstorm different means for helping small businesses secure similar patent protection abroad.

Special thanks today to those of you who prescheduled your testimony; Mr. Tim King from IPG Photonics Corporation, Mr. Stanley Erck from Novavax and BIO, Mr. Alan Kasper from AIPLA, Mr. Morgan Reed from the Association of Competitive Technology, and Mr. Steve Caltrider from the ABA IP section.

We'd, likewise, welcome testimony from those of you who did not preschedule. We will open the floor to your views as well. Everyone is welcomed at our
Now, Congress has mandated, as Deputy Director Rea explained, the PTO to conduct six additional studies under the Act in addition to the International Patent Protection study. Those studies include the Prior User Rights study, genetic testing, misconduct before the office, satellite offices, virtual marketing, and implementation of the America Invents Act. The PTO will be following the same protocol for conducting those studies as it is for the International Patent Protection study.

First we will publish in the Federal Register a notice of a hearing and request for public input. Following receipt of your written comments and your testimony at the hearings, the PTO will prepare our reports for Congress. We will make all of the feedback that you give to us along the way available for you to access on our microsite. We'll likewise make our final report available on our microsite so you can see exactly what is happening in our studies and in our reports in very transparent means.

Now I'm going to tell you a little bit more
detail about a couple of these studies to put in some
plugs here. The Prior User Rights study is running in
parallel with the International Patent Protection study.
We held the Prior User Rights hearing this past Tuesday,
and we were pleased to have five witnesses give
testimony, and about 60 people in our audience: 20 in
person, and close to 40 something through our virtual
audience on the microsite. A recording of
that hearing is presently on our microsite. So if you
have an interest, you can listen to what was said that day.

Now, the PTO soon will be turning to our
genetic testing study. We are planning to publish our
Federal Register Notice in January of 2012 and send our
report to Congress in June of 2012. And the remaining
studies in the list that I gave you aren't going to be
due until 2013 or thereafter.

Now I'd like to review the protocol that we
will be following for our hearing today. We will invite
each person who prescheduled testimony to come to the
podium and provide the testimony for our audience. On
the agenda, you will see that each witness has been
allotted approximately 15 minutes of time. We are not
pressed this afternoon. We want to hear from you. So each witness should feel free to take as much time as you'd like in giving your testimony.

After each person is finished, we would ask that you stay momentarily at the podium so that we can open the floor for questions, both from our PTO panel as well as all of the audience members in general. If you are a member of the audience and you would like to ask a question or present some form of a commentary, please go to the microphone in the center of the room, state your name and the entity that you may represent.

Our hearing is being transcribed today, so we want to make sure our transcriber is able to record everything accurately.

With this overview, I'd like to introduce Stu Graham, the Chief Economist for the PTO and a leader of the prior user rights study. Stu is going to provide more details about the scope of the study.

MR. GRAHAM: Thank you, Janet.

I am Stuart Graham. I'm the chief economist of the USPTO, and my office has been given the primary responsibility to lead this study, and I'm happy to be
here along with our colleagues from the SBA to take testimony today.

In our request for information posted in the Federal Register on October 7th and in this hearing today and in Los Angeles on Tuesday, November 1st, we are seeking comments and information on how to best address the issue of international patent protections for small businesses. And our federal program should be established for that purpose.

Recent economic research supported by the Ewing Marion Kauffman Foundation has shown that all net job creation in the United States in the last several years has occurred in companies less than five years old. Still other evidence from research conducted in California at the University of California system shows that entrepreneurs in technology sectors from biotechnology to medical devices to hardware and software relying on patenting to win competitive advantage in the marketplace and to attract capital so they may grow and create jobs. But the academy has offered scant evidence concerning the importance of international patenting to young companies.
It makes sense to all of us that if the entrepreneur in her kitchen with a good idea today is going to grow into the Facebook of tomorrow that she does better by preserving the options to grow into global markets.

We know that we now live in an increasingly global economy, and internationalization strategies from exporting to franchising to FDI are an important pathway to growth and to job creation, but we know too little about the role played by effective international patenting and enforcement in supporting such internationalization strategies and the growth of the youngest most embryonic companies.

We are therefore pleased to have an excellent set of speakers today to help us learn more about the issues facing young companies as regards international patenting and to give us advice on whether and under what circumstance a federal program to support such patenting may help.

At stated previously, the legislation directs the USPTO in collaboration with SBA to investigate and report on at least two possible options. First, to
establish a revolving fund loan program and/or second a
grant program to small businesses to help defray the
cost of international patent applications, maintenance,
and enforcement, and related technical assistance.

Ideally, our report to Congress will include
at least the following information: First, what role
does international patent protection for patenting
play for small businesses? Is it a significant factor
in helping small businesses to internationalize and to
grow? And are there certain circumstances or certain
industries and sectors in which that protection is more
or less important?

Second, what federal programs already exist or
what may be created to help small businesses with
international patent protection? How can different
Federal agencies, whether the USPTO or the SBA or other
agencies, enable small business entrepreneurs
who are seeking help to actually get it?

And third, what role does the cost of
international patent protection play in small
businesses' ability and willingness to take advantage of
that potential? Are there particular reasons why small
businesses need a different kind of program to enable
them to do what is in their best interest? And what are
the circumstances in which a revolving fund or a loan
program would be appropriate? Is one approach or even
some different approach clearly better for accomplishing
the goals of supporting the internationalization and growth
of small entities?

These three issues are the basis for the set
of questions specified in the Federal Register Notice,
and we encourage those here today and anyone listening
through our live stream to consider responding and
offering information about these acts. Please address written
comments to

SMEpatenting@USPTO.gov, again, that is SMEpatenting, all
one word -- at USPTO dot gov.

In the meantime, let us turn the program over
to live comments from several members of the public and
representatives of organizations who have expressed an
interest in these issues and a willingness to give
testimony. To guide that process, I turn the agenda
back to my colleague, Janet Gongola.

MS. GONGOLA: Thank you, Stu.

Our first witness is Mr. Timothy King. He
will be testifying virtually through the telephone system. So while I give the introduction, we can key him up.

Mr. King manages Global IP Portfolio of IPG Photonics, which is a developer and manufacturer of optical fiber-based lasers.

Prior to joining IPG, Mr. King was assistant general counsel for intellectual property at Entegris and Mykrolis. He has over ten years of experience in corporate in-house IP management.

Mr. King take it away.

Perhaps Mr. King will be joining us a little later. So we will move on to our live testimony in our east forum with Mr. Morgan Reed. Mr. Reed is the executive director of the Association for Competitive Technology. Prior to joining ACT, Mr. Reed was the senior legislative advisor at the Venable Law firm.

Mr. Reed, I turn it over to you.

MR. REED: This is a very large podium. I feel more like the captain of a ship here.

So this is a room of patent lawyers and patent experts and experts on the minutia of the law, and in
the case of Stuart, an expert data crunner.

But today what I wanted to talk about instead is to help kind of put a face on what we're talking about when it comes to internationalization of patents and how it impacts small businesses.

A brief history: The Association for Competitive Technology, which is my organization, represents about 4,000 software -- software and technical companies from around the world. The vast majority of them are here in the United States. We have it as an abiding mission to be pro intellectual property. We spent a lot of time walking around this country and around the world sitting down with small businesses to say, you know, how are you creating a road map for your IP within your company? How are you treating IP as an asset?

So while I wouldn't quite say we are IP maximalists, we are believers in the intellectual property system as a method to create value for small companies. We think it's particularly notable that a lot of times this truly innovative disruptive technology that we create and that we protect through IP gives us
an enormous lever against the large companies that have vast resources to operate that we don't.

And so I think that we need to set the stage to remember why do small business like IP? What is the value? Well, I can be tiny, but I can walk into a meeting with Oracle and say, hey, pay attention to me. I can be tiny and I can walk into a courtroom and say, this was my idea first, and somebody will listen. And if you've ever met with small inventors, you know that one of the things that they really, really want you to do is listen to them, and the patent that intellectual property gives them the megaphone to be heard.

So when it comes to internationalization of patents, let's look at a couple -- I'm going to bring some case studies rather than strict numbers. One of our member companies, a company called Traffax is based in Maryland. It has some patents created by some professors at the University of Maryland campus who were thinking about traffic. And as all of you travel here, on any kind of rainy day in Washington D.C. know, traffic is a nightmare in the Nation's Capital, capital "N" nightmare.
What they realized is that the vast majority of us carry with our car keys now a device that has blue tooth on it. Well, if we watch the cars, and we don't actually listen to what is happening but we see that blue tooth identifier as it goes by, we know how many cars are going by. Not only that, we know how fast they are moving, and we do it in real-time and we don't have to depend on cameras.

Now, an enormous amount of technological work went into piggybacking on the blue tooth system in your car to figure out how to listen to it, how to create it, and they had this great idea; we can use existing infrastructure to help manage traffic.

So they spun out a company called Traffax. They got support from the University. They got some venture funding. They hired really competent people, like one of our friends, Peter Karnes, and they set to work making their product.

Now, you'd think, Washington D.C., national audience, we should have these systems everywhere. But you know where their first customers came from? Abroad. Because guess what? Singapore has traffic problems.
Sweden has traffic problems. Around the world people have traffic problems, and they also have blue tooth. And, yet, this is a company that would not have been able to get off the ground, would it not have been able to solve or help solve commuting problems without the value of intellectual property.

Now, because of Peter and because of their willingness to put some money into it, they spent money that would have been part of their mortgage or would have bought presents for their kids to get translation services, to get their patent covered in multiple nations.

Never forget the hard choice the small business has to make when it goes to an AIPLA lawyer. They are making a decision at that time to borrow more money from their mom, to not make a mortgage payment.

So when we talk about what are the considerations small businesses have to make before they go to an excellent counsel from AIPLA, those are the things they have to do.

Now, Traffax was successful because they knew about the value of IP. They spent the money. They got
the translations, and they're now successful and they're able to make sure that they're protected overseas. Where plenty of large companies would like to, you know, let's do the same thing, great idea, let's take it for free, Traffax can say, huh-uh, not so fast, how about a license. So Traffax is a success story.

So I don't take up too much of Dana's time, I'll talk about another one that's not so successful. Another one of our members -- I won't use their name because it's kind of embarrassing -- was an imaging company. They made scanners; very, very, very high end scanners, fancy scanners, with lots of patented technology and software in it. But the owner had met with counsel and they said, you know, it's really costly to get translation services overseas and there's -- going through the PCT and doing all that work, you know what, let's just take care of the patent here in United States, and that's what they did -- oh, they got one in Australia.

But they didn't get one in Germany. Lo and behold, the big conference in Germany comes around, and our small inventor, who had formerly been an employee at
Kodak, who had real stake in this game, knew what he was doing in the technological side, was setting up his booth, selling his scanners. Two booths down was a German company, a well-funded successful German company and they were demoing his same core technology. We're talking about $10,000 a pop scanners.

And the part that killed him was the fact that the guy at the German booth was saying, hey, we are using their technology, go over there and he can explain the technology to you, but it's here in our one that has this large company backing, and by the way, we are already part of your existing service agreements, and feel free to come back and learn from him and then come over here and buy ours.

Well, he went to his U.S. based patent attorney and said, what can I do? And the attorney had to tell him the truth, which was, unless they import them here, it's probably not worth your trouble.

The part that's really debilitating for this small businessman is not that what he did -- that he wanted to drive this large company out of business or he wanted to brutalize them, as he said when he testified
before Congress on this issue; he said, I just wanted
them to take a license. I would love for them to be
selling my technology and give me a little on the back
end.

So when we look at the success of Traffax, who
protected on the front end, who spent the money, who had
the IP intelligence to approach it in that direction,
they were successful. And my friend at the unnamed
imaging company, chose not to spend that money. But
remember the choices that he was making were about
maxing out his credit card, borrowing money from mom,
-facing off against a very opaque and difficult wall of
uncertainty when it comes to internationalization.

Now, we haven't talked about China, which is a
separate rabbit hole. But for those of us who exist in
the U.S., EU, the Japan system, you should never
underestimate the cost and the confusion that
internationalizing your patent creates for a small
businessman who I guarantee you is strapped for cash.

So this isn't a plea for more money, but it is
a plea to make sure that as the researchers produced, as
the reports are produced, that that perspective that
every penny that he's spending to internationalize his patent is a penny he's not spending on his credit card, is not buying something at the store, is not hiring another technology expert; instead, he's spending it overseas on patent internationalization. It is not a bad thing. It is a costly thing.

And I think the goal of this research and the goal of this effort needs to be to see what the United States can do to benefit small inventors here to make sure that we understand the cost, we mitigate that cost wherever possible, and that we streamline the system, so as near as we can, we make every dollar that that small businessman is spending on internationalizing his patent count.

I'll turn it over to the next person.

MS. GONGOLA: Thank you, Mr. Reed. Does the panel have any questions?

If you wouldn't mind just staying at the podium and captaining that ship a little longer, I'll turn it over to Stu for the first question.

MR. GRAHAM: Thank you, Mr. Reed, that was very, very informative.
I believe that your organization has some expertise or knowledge about the implications of translation cost. If you could share that information with us, I think that will be very, very useful for the record.

MR. REED: I will make it a part of the record. I wanted to get the story part out in front. So ACT has spent quite a bit of time in Europe and has been part of the work within the European Union to help calculate what the translation costs are. We had a study done out of two U.K. universities that has been well received by the EU, and we have provided considerable testimony directly to the Commission on these issues, and we'll be happy to make it part of the record for your efforts as well. And that is and has been one of the biggest problems that we have seen in Europe for patent harmonization, is the translation cost.

It's funny how lopsided it gets. Our members who are European based say -- and these are folks who speak five or seven languages -- that the cost of the lawyer is actually less than the cost of the translation
in certain cases. So what you would think, the highly trained, really valuable patent lawyer guy that says, that's going to cost me a fortune, but when I add up my translation cost, that actually flips the equation, I am spending more to get the translation than I am on the attorney. So in our studies in the EU, we find that that is an enormous battle.

With China, again translation costs are far out stripping the cost of attorneys. There are other questions about whether or not I'm actually properly protected in China. But within the questions of, I'm going to move to get a patent in China, a lot of the questions are around, are they translating it right. And so few people here in the United States have an expertise in that area, that in that case one of the biggest concerns is you're depending on a third party to accurately represent what your invention is. That's very difficult and very hard to know.

MR. GONGOLA: Other questions from the panel for Mr. Reed? David?

MR. CHAIT: Thank you, again, Mr. Reed, for your testimony.
A lot of the issues that you laid out relay to the choice that a small business has to make of the higher cost versus the protection. But on some of the areas relating to those higher costs, could you speak to the availability of credit or capital for small businesses that you've seen if they make that decision?

MR. REED: Right. And it's been a very difficult and trying thing. And I work with Dr. Winslow Sargeant, Counsel for Advocacy, and we've done several roundtables where we focused on the question of access to capital.

The reality of the banking crisis and the credit crunch that will happen is that businesses change. A very good friend of mine runs a now successful wide commentator base start-up. He is not seeking D.C. money anymore, in part because he doesn't want to lower -- dilute his portion and cause him problems. But he has realized that through utilization of card services and others, he's just becoming more efficient.

So the reality is lack of capital is a huge problem, but what's happening is small businesses and
entrepreneurship, we're just being scrappy. We are finding ways to do it with less. And so we love cheap ready capital -- you know, we like what the Fed is giving to the big banks, you know, if that could be arranged, low cost money, but if we're not going to get that, then you have to understand that the dollars that we are spending out of our own pockets are even more dear.

So access capital, huge problem, but it hasn't killed entrepreneurship. We are just finding new ways to skin -- you know, to deal with the problem. So if you want to give us more, we'll take it.

MR. COLARULLI: I have two questions that I'm curious about. One goes to the issue that's presented in the legislation. Do you have a view on whether a loan program or a grant program would be more beneficial? I think your answer will be whatever way works to get the money, but I'll let you answer it.

MR. REED: Although there's a really interesting story about SBA, SBA loans -- and not to pick on the SBA, but we recently had 50 entrepreneurs come to Washington D.C. to meet with members of
Congress. One of them was a gentleman named Chris Einhorn. Chris told a very personal and very real story about his effort to get SBA back funding.

Chris is based in Austin, Texas, and has a technology company and had some really great ideas, patentable ideas. Chris went to his bank and said, I'd like to get an SBA loan. They said, oh, gosh, we don't know how to price IP as an asset. He went to the next bank. Gosh, great idea, Chris, we have no idea, even on a 90/10 ratio, which is, you know, 90 percent backed by SBA and 10 percent backed by the bank. The bank goes, I don't know how to price it, I don't know what it is worth. Next bank -- 12 banks, 12 said, Chris, this is a great idea, we have no idea how to price it and we can't give you any money.

What was even more discouraging for Chris is the message that he heard from one of the banks who said, Chris, if this were a loan for a gas station, I would have written you a check today, but I have no idea -- I can give loans for gas stations. I don't know how to give money under SBA for intellectual property, for innovation.
And so when we talk about how to get more money, grant or loan or anything, the first hurdle we need to get over is -- and, again, working with SBA, I know they're trying -- but the reality of an SBA backed loan for a technology idea is very hard, even in a 90/10 ratio, for the bank to understand how to price it.

And the final aspect of that is something we all know in Washington, which is risk, which is what the business that my people are in. I mean, they're in the business of risk. They're tiny. They may go bankrupt. They may fail. Risk is a reality for our folks. Risk is something that is poison to the government.

So it's very difficult, and we will have to work very hard to defend SBA for taking risky propositions, because if they loan out money for innovation and innovation continues its normal rate of failure, which is by the way, 80 percent -- remember if you're a venture capital fund in the valley, you're going to be seen as brilliant if you've got two out of every ten companies that make it big and eight that go bankrupt. Hopefully, they'll go bankrupt with some IPs so you can churn it, put it into a new company and
express the idea in a new way. But you're okay if you
lose seven out of ten.

So we're going to have to work very hard to
make sure that the SBA is set up with a system that
allows them to fail a majority of the time, because my
people, we're going to fail a majority of the time. But
the rest of the time, we're going to come up with great
stuff that blows you away and changes your world.

And that's -- we need the money to be able to
do that. We need the IP protection to make it
exportable. And we need the faith that, hey, I might
not got it right this time, but let me have a chance for
the next.

MR. COLARULLI: It's an important reminder
that we're going to rely on this study, and
something we've talked about here, which is all of the
things that your company -- the smaller companies are
facing, also face the larger companies, they just affect
the smaller companies more.

MR. REED: That's right. That's exactly
right.

MR. COLARULLI: So let me ask you one
additional question, again, kind of going to the issues that Representative Gary Peters from Michigan, who submitted this as an amendment about the foreign bill, had raised and something that's invoked in the language. This is in terms of timing. So given limited funds, whether it's a loan program or a grant program or if there are funds available, when are those funds most important? In the front end, filing, or what the legislation also envisions as maintenance?

When is it more important?

MR. REED: I think it's unquestionable that it's front end, because if I'm going to be successful, somebody is going to give me money for maintenance.

Now, there is -- I need to put a caveat on that - some ideas take a long time to fully reach expression, and there are biotech and others. But for folks that are in the -- let's call it the cutting edge of innovation technology -- it may not be true in green tech, it may not be true in biotech, where you may have a really long approval process from government regulatory agencies. Maintenance funds may come in very handy.
For our folks, it's the front end, because I'm either going to make it or I'm not. In five years, the money, nice, but the number of struggling just-getting-by companies, it's not that many. I'd much rather take my IP, see if I can bundle it up, find a new company, get a new start, funds, support, or move on. I might even get a job.

But outside of that, it really is one of those things, that our folks need it on the front end and they need it to bolster that question of, where do I spend my precious capital.

MR. COLARULLI: Thank you.

MR. REED: Anything from the floor?

MS. GONGOLA: We have one more question from the panel.

MR. TRAMPOSCH: I'm just wondering if there are other things besides the money and the financing that the USPTO can do to help the companies that you work with in filing patent applications. For example providing tools to reduce the cost such as PCT and PPH.

MR. REED: I think you all know -- well, first
of all, how about hiring an army of translators? I mean, the irony is I joke, but we all know that China is likely to meet, what, about 9,000 patent examiners by 2015? And they are, in fact, subsidizing the translation of Chinese patents for examination here in the United States. So our competitors are, in fact, subsidizing translation costs for U.S. patents.

So since translation represents a pretty high barrier -- I mean, let's walk back for a second and remember how we get to this place. I've got an idea. I take my idea and figure out the methodology of how it's actually going to be expressed. I figure out if it's a physical thing. I figure out how it's going to actually exist. If it's software, I need to write up how all the parts of it are.

Then I go to a patent attorney that takes my idea and says, you haven't thought broad enough, you need to make it bigger to the point where I hardly recognize my original patent, but it's still there, which is great. Now, I have to take this thing and I have to expand it around the world. So by the point where I'm looking, I'm already out of pocket, let's say,
30 grand.

Let's say I'm 30 grand out-of-pocket to IP attorneys and other costs associated with just my initial application for a patent. So 30 grand? That's half of an FTE in most places in America, a full-time employee. So I've already taken away half of an engineer to pay for this. This means something.

So by that point in time, I'm in 30 grand -- and I've got to say, how much more can I spend? So is it 30 grand and then 30 grand and then 30 grand for every language and every country that I need to go to? Is it 60 grand and 60 grand? Now I'm starting to actually cut into my core business. Half of an FTE, I've got to do it. That's how I'm going to stay in business. But now you're starting to talk about flipping my entire company over.

So that becomes the point. So, on the question on what the USPTO can do, obviously access to capital, grants, loans are important, especially ones that are directed to helping me make a decision about that cost.

So if it's a grant that's done for the purposes of helping me to internationalize my patent, I
don't have to think about did I take this out of my engineering bucket. I didn't. Why? Because that money wasn't available for engineering. It was available for this purpose, which is to help me internationalize and export my idea. So if it's in that bucket, I didn't have to make that choice.

So that's the point where it needs to be, and that's how we have to think about it in terms of what the money comes. And hire a bunch of translators.

MR. TRAMPOSCH: Just to let you know, we are starting to look at a project on machine translation. We are primarily thinking about it in terms of translating prior art, but we'll start thinking about it in terms of providing a tool for start-up applications as well.

MR. REED: That will be great.

MS. GONGOLA: Do we have any questions or commentary from the audience?

Sir, please go up to the speaker and state your name and any affiliations that you have for the purpose of transcribing the hearing.

MR. BAHN: My name is Patrick Bahn. I am with
TGV Rockets, and I have a fair degree of experience with SBA loans.

You may want to mention -- for the panel's benefit, the SBA on loans usually has actually three major problems, not just valuation of what you're doing, but also the credit worthiness of your company and restrictions on the income in which they can loan against. They are more than willing to loan you a million dollars if you have a government contract in hand, but if you have some sort of flaky R and D contract from a class A or a class B company, the SBA lending facilities are like, unless you can personally guarantee that loan, which all of a sudden essentially makes that loan valueless.

So there's actually a lot harder problems than just the SBA evaluating IP. And I'm sensitive to the IP problem. I'm sitting on 13 million of IP that I can't --

MR. REED: Well, to address this, he's exactly right. That's why I said, risk is poison to the government. He did a great job of articulating some of those examples. But that's that umbrella. I mean, the
SBA folks have to protect themselves. And it forces the example that he said of a one-to-one -- I have to back my loan one-to-one. Well, what's the point of getting a loan at that point?

So I don't expect it to be an easy problem, but finding a way to make risk on loans less dangerous, less -- and I say "dangerous" because you're going to fail, but making the punishment for failure not a congressional hearing where somebody is, you know, put in stocks and written up Pennsylvania Avenue to be mocked up by the crowds. In Washington, you know, that's a fate worse than death.

So his point is exactly right. It's how do we help the SBA deal with their risk aversion.

MS. GONGOLA: Other comments or questions from the audience?

Thank you very much, Mr. Reed, we really appreciate your testimony.

We're going to connect now with Mr. King, who I do believe is joining us on the telephone.

Mr. King, can you hear me?

MR. KING: Yes, can you hear me?
MS. GONGOLA: Yes, Mr. King. I have already made your introduction. And I know you're pressed for time this afternoon, so I'll turn it over to you.

MR. KING: First I'd like to thank the U.S. Patent Trademark, for providing me with the opportunity to comment on the proposals that targeted international filings by small business. Actually, I appreciated hearing Mr. Reed's perspective because the proposal that I'm going to make is going to provide something I think all business owners need in order to make a good decision, and that is time.

Specifically, I'm proposing amendments to the Paris Convention that will provide small business a much greater period of time to analyze and file their international applications and actually result in more robust applications, and none of these changes require any tax revenue.

So I thought it would help to give a little background on where I'm coming from. I've worked with individual inventors, small companies, and mid-size companies for almost 20 years. And securing foreign patents rights has always been a substantial portion of
my practice. And the technologies for which I sought protection are pretty broad. They may include technologies that are commercialized by pharmaceutical companies, pharmaceutical and biotechnologies supply chain innovators, innovators in the semiconductor, and semiconductor tool supply chain, steel manufacturers, and now fiber laser manufacturers, a technology that's in the industrial, medical, and defense supply chains.

With respect to the last seven years, a substantial part of my practice has also included licensing, enforcing international patents, as well as challenging third-party patents. So my comments are based on a pragmatic approach to international patent filing. How does any perspective patentee cost effectively protect its innovations overseas such as those international patent assets provide value over and above their cost? That's a calculus that all perspective patentees engage in, but it's one that's obviously much more critical for the small business inventor because they're not in the position to make as many bets.

So as to the practicalities of enforcement,
please understand that most of these foreign
jurisdictions have a much higher rate invalidating
patents in post-grant contentious matters than that
which happens in the U.S.

So from a statistical basis, you actually --
in order to best protect your commercialization of your
inventions, you actually need more patents overseas than in the U.S. to adequately protect your inventions. But, of course, this need to foreign file conflicts with cost,
market accepted data, and data regarding third-party
patent protection status.

So currently a typical inventor has a year.
Under the Paris Convention, you get a 12-month period
from the filing of the U.S. patent application to
protect your rights in other jurisdictions.

As I'm sure Mr. Reed's constituents would agree, that current priority term, 12 months, is not
enough time for most applicants, particularly those with scarce resources to analyze the strength of their invention with respect to the marketplace or to understand what prior filed patent applications exist.

So another point you have to consider about
the burden of small business is that in current patent practices it's typical that the inventor will file a number of provisional patent applications directed to the same invention. I mean, invention is not a static event. It involves continuous improvement. There's usually the nugget or the good idea of the -- but then as Thomas Edison said, then there's the 99 percent perspiration that you need to put into in order to make a robust patent, robust invention.

So in that one-year period, the small business or any perspective patentee is incurring attorney's fees for the preparation of these one or more provisional patent applications that have to be submitted at that 12-month deadline.

So in addition, because of that short period of time in which the perspective patentee has between paying its attorneys and patent offices and committing to foreign filing and those substantial fees, basically they have less than -- well less than a year to put together all the money associated with the filings. So, again, not just the U.S., but both filings.

So what I would propose is if the prior term
was extended to 24 months from the current 12, it would allow the inventor, number one, to spread out its financial obligation over a much longer period of time. And, again, talking to the point about capital, it would provide the inventor a much more longer period of time in which to raise the capital associated with these foreign filings. In addition, that time period -- again, depending on the marketplace, that would allow the inventor to potentially prove the commercial benefits of the invention in the marketplace. And so it would be the instance where instead of walking to the bank with no information about commercialization, you know, in some circumstances, in some industries, that perspective patentee could have market data to justify some of the cost that he would seek to raise capital for. Another point here that is very important is the quality of international filings. Under the current system, the perspective patentee doesn't have the opportunity to fully see the prior art because you have to file your international application at 12 months. It won't publish until, depending on the location, up to 18
months. And so you have to commit all of these funds, and then six months later you have a better chance of understanding, you know, how does your patent stand or your intellectual property filing stand with respect to others. I mean, as anyone in the industry knows, you know, smart people are all over the place and lots of people are trying to solve the same problems, and so the result is that many people end up filing very similar inventions. And so, you know, if one has an understanding of where they are in line with respect to their competitors, that's a very good -- again, it's another indicia of the potential of commercial success that they can walk to any loan officer with. For example, if there are a thousand applications that are filed in a particular subject matter, they would know that and they could walk to the bank -- they could walk to the bank with that data, and so that data would support the fact that their particular invention is, A, very important, and B, if they're first in line, they're more likely to benefit on the IP side. Another point -- again, this is not just a
U.S. issue. If publication occurred well before the foreign filing deadline, it would allow all perspective patentees, not just the U.S., but abroad as well, the ability to set the value of their invention in view of the prior art as well as the view of competitive filings.

With the change of the U.S. law to a first to file system, then one could truly ascertain with much more certainty who the first inventor is on a global basis. I raise this point because I think this would actually make it seem more likely that the signatories to the Paris Convention would find the amendment that I'm suggesting palatable.

So in summary, my specific proposal is that the U.S. Government seek amendment of the Paris Convention so the term in which one can enjoy a priority right in a patent filing is extended to 24 months from its current 12 months and that access to such 24-month priority term be granted only on filings that are published within 18 months of the filing of the first priority document of international filing.

Thank you very much. Are there any questions?
MS. GONGOLA: Thank you, Mr. King. Questions from our PTO panel? Stuart, please.

MR. GRAHAM: Hello, Mr. King. Thank you for joining us virtually. I enjoyed your comments very much.

I have two questions: One goes to -- one goes to the point that you made about the uncertainty in the process and the time that it takes for small entities to amass the kind of capital necessary to engage in the necessary international patent protection that you described.

How in your mind would the proposed grant or loan program work in that regard? And if either of them would work, what would be the appropriate measures by which entities would be evaluated as to whether they should be able to access such programs — what measure would be appropriate?

MR. KING: Well, I think, again, you know, the world has changed a great deal, and I think using the publicly available patent databases, one could present a fairly comprehensive picture of what prior art is out there, what other people are doing, to any potential loan officer. Now, again, I think -- I think you will
probably have to create some matrix as to the -- you
know, or provide some sort of expertise, maybe in the
form of, you know, some -- an attorney to provide
opinion as to where this person is in line with respect
to other people. That's an expense. And maybe that's
something where this loan program could probably come in
handy, where you're giving the banks some testimony
based on people's expertise in a particular market, and
with the legal system, that this particular invention
has, at least in terms of its viability or validity, has
a good chance.

MR. GRAHAM: Very good. Thank you.

For the second question, let me just say, you
mentioned that because of the differences in practice
overseas, that it's oftentimes necessary, because of the
probabilities to seek more patents because the
likelihood of patents being either not granted or
invalidated as high, particularly in the short run and
the early running. Do you have a rule of thumb as to
compare it to a U.S. filing, how many foreign filings are necessary?

MR. KING: Well, on a statistical basis -- again, these are based on my knowledge of my past practice in Korea and Japan. And the validity of patents are held valid in about 33 percent of cases in those jurisdictions, plus or minus 3 or 4 percent. That's about half of what I understand the current statistics are of the U.S. patents. And so statistically you would appear to need at least two patents for every single U.S. filing in order to have the equivalent statistical chance of success.

MR. GRAHAM: Thank you.

MS. GONGOLA: Anymore questions from the panel?

MR. TRAMPOSCH: Thank you very much, Mr. King. I'm Albert Tramposch. I'm heading up international affairs here at the USPTO, and, of course, I was interested in your proposal about the priority period under the Paris Convention.

You may already be aware that there is some precedent for this. When the Paris Convention
was adopted in 1883, the priority period for patents was six months, along with for trademarks and designs. And when the Paris Convention was revised in the 1920s, that priority period was extended to 12 months for exactly the kinds of reasons that you've explained to us today. So there really is some precedent for extending that period.

The question I have for you is whether you or those that you've been affiliated with have used the Patent Cooperation Treaty with some effect. One of the intentions of the Patent Cooperation Treaty is to extend to around 30 months the need to do things like pay examination fees and to pay translation costs, which we've already heard could be quite expensive. And if the PCT is not effective in helping that, we at the office would like to know. Thank you.

MR. KING: My 20 years of practice has included substantial use of PCT practice. My going national immediately is the rare exception. And I can count on, you know, one hand the number of times where I've gone direct national rather than using the PCT system. So I think qualitatively it's done a very good job to facilitate the winnowing out of cases that are
weaker than others. But I think the critical limitation
with respect to the PCT system in general is that you
have to file 12 months before you have all the
information that you garner from the PCT process.
And so if you have information available to
you at the time of foreign filing or entering the
process, you will be able to make much better business
decisions about those patents that you would proceed
with.

MR. ALBERT; Great. Thank you.

MS. GONGOLA: Any questions from the panel?

Saurabh?

MR. VISHNUBHAKAT: Thank you, Janet.

Thank you, Mr. King, for your comments today.
I just wanted to follow up with you about the statistics
you mentioned to Stu's earlier question regarding 33
percent, plus or minus 3 or 4 percent, of patents being
held valid, and how that's considerably less than the
United States. I assume you're referring to patents
that are litigated or somehow the subject of the
dispute.

Certainly in the United States, we understand
that most patents -- the vast number of patents granted, very few are actually litigated. They are the high value ones. But I'm wondering if you can speak a little bit about how you would adjust that statistics for the patents that are not litigated, how many of those are held valid or understood to be valid.

MR. KING: Well, one negotiates a license in view of the perception of value that one particular patent will have in the patent office. And so when you speak of patents that aren't litigated and their value, business people will typically view them at the same rate as patents that are litigated would be held valid. I mean, there are some patents that are weaker than others. But all patents aren't perfect and all patents are subject to some degree of challenge.

So all things being equal, your success rate of litigating typically influences substantially whether someone is going to take a license or whether they're going to just thumb their nose at you and wait for you to sue them.

MR. VISHNUBHAKAT: Thank you.
MS. GONGOLA: Questions from audience or any commentary?

Well, thank you, again, Mr. King.

We will move on to our next testifying witness in person, Mr. Alan Kasper. Mr. Kasper is the director of Sughrue International Department and a former president of the American Intellectual Property Law Association. Prior to joining Sughrue, Mr. Kasper served as an attorney and later as the chief patent counsel for Communications Satellite Corporation. Mr. Kasper was also an examiner at the Patent and Trademark Office.

Mr. Kasper?

MR. KASPER: Many years ago.

MS. GONGOLA: The ship is now yours.

MR. KASPER: Thank you. My name is Alan Kasper, and I am a partner in the Washington D.C. based patent law firm Sughrue PLLC, and I'm also past president of the American Intellectual Property Law Association.

I am pleased to have the opportunity to present the views of AIPLA with respect to the subject
of international patent protection for small businesses
for purposes of the United States Patent and Trademark
Office, preparing a report on the subject as required by
the America Invents Act.

AIPLA is a U.S. based National Bar Association
whose approximately 16,000 members are primarily lawyers
in corporate practice, in government service, and in the
academic community. AIPLA represents a diverse spectrum
of individuals, companies, and institutions involved
directly and indirectly in the practice of patent,
trademark, copyright, unfair competition, and trade
secret law, as well as other fields of law affecting
intellectual property.

Our members practice or are otherwise involved
in patent law and other intellectual property law in the
United States and in jurisdictions throughout the world.
AIPLA has long recognized the need of small business
entities who have or plan to have the sales of products
and services outside of the United States to obtain
patent protection under innovations and countries other
than the United States.

AIPLA is supported through its communities and
programs, the education of small business entities, and
their patent attorneys, patent agents or in-house staff
with regard to the need for, availability of, and
procedures for obtaining patent rights abroad.

AIPLA continues to have a strong interest in
the establishment of appropriate policies, programs, and
mechanisms for enabling small entities to secure patent
rights abroad in an efficient and cost effective manner.

The first question in the notice is how
important is international patent protection to small
businesses. The response to this question may be
divided into two groups. It appears that each group
would have a different interpretation of the question.

The first subjective interpretation may be
restated, how do small businesses view the importance of
international patents. The second, a more objective one
as, how important is international patent protection for
small businesses.

As to the first subjective group, how do small
businesses view the importance of international patents,
the answer is less positive. Some small businesses do
not value international patents because obtaining
patents is too expensive, enforcing patents is too
difficult. Small businesses are focused on the primary
market, United States, and small businesses lack the
ability to project their marketing internationally.

As to the second more objective group, how
important is international protection for small
businesses. The answer is more positive. Any business
with a web Site is marketing its inventions
internationally. Investors who want to grow, merge, or
sell a business will value international protection
because it allows the business to grow beyond the U.S.
market. Overseas markets, especially in developing
countries where standards of living are increasing
dramatically are becoming important markets for some
products. Any small business that exports devices or
processes covered by U.S. patents or that manufacture
such devices abroad for importation in the United States
needs international patent protection.

The second question in the notice asks, at
what point, if ever, in the growth of small companies
does international patent protection become important?
The question also may be addressed from two different
perspectives, one focused on when the typical business owner is interested in international patents, and the other focused on when small businesses should be interested in international patents.

The two perspectives converge with the recognition that many small businesses do not realize that they need international patent protection until it's too late to apply.

As to the first perspective, the issue raised is what is a typical small business owner interested in international patents. The answer is, when their markets start reaching out of the country into other patent respecting jurisdictions. Growth occurs slowly in many small businesses. International patents are expensive, and small businesses have other priorities for their money. They may not realize that international patents are important until it's too late.

In addition, using patents to protect their growing markets, small businesses want to get international patents at early stages to attract investors.
With respect to the second perspective, the issue raised is when should the small business owner be interested in international patents. The answer again is variable. International patent protection may be critical in the first few years of establishment. For startup, high tech businesses, because technology advances rapidly, international patent protection is important from the start of the company. Also, since many universities license their U.S. patents to small businesses, the small business should be mindful of the advantages of extending protection internationally, possibly at their own cost.

The third question asks what challenges, if any, interfere with the growth and competitiveness of small companies if international patent protection is not sought early in the innovation process. Again, there are several answers, each raising a significant challenge.

First, in the absence of international patent protection there will be reduced long-term royalty revenue and the inability to prevent manufacture and sale in other parts of the world. Second, without
adequate protection, there will be reduced opportunities
to obtain capital from would be investors. The first
act of an investor is to perform due diligence on the
company. If international patent protection has been
neglected or is insufficient, the likelihood of an
investment going forward is reduced, and accordingly the
valuation of the company is also reduced.

Third, in the absence of protection there is a
reduced market position for small companies with regard
to larger companies who can exploit the market by
copying the small businesses' products very easily.

Finally, there may be a reduced scope of
benefits. Patent applications filed later in the
development process protect only improvements. If
patent protection is not sought for the basic
development early on, whether a product or a method,
there may be no way to effectively protect against
copying and increased competition.

Question four asks what specific role does
international patent protection play in the successful
internationalization strategy, such as franchising,
exporting, or foreign direct investment of small
AIPLA believes that foreign patent protection is critical to successful internationalization strategies. The key obstacle for U.S. companies entering foreign markets is local companies competing with the patented product by offering their own infringing designs. While in some countries it is difficult to enforce patent rights against those companies, without patent protection, however, it may be impossible to compete. For example, international patent protection is critical for any small business that develops a new drug or a medical device since there may be no other acceptable alternatives. In the wireless and I.T. sector, if a small business does not have patents in as many countries as possible, it may be very difficult to obtain local investment.

The fifth question asks, how can the USPTO and other federal agencies best support small businesses regarding international patents with regard to acquisition, maintenance, and enforcement?

With regard to acquisition of international patent rights, AIPLA notes that translation costs and
annuity payments represents significant expenses and acts as a barrier preventing small businesses from applying for foreign patents. The USPTO and Federal Government could work with foreign governments to delay the requirement for submitting the translation, especially in countries with deferred examination. They also could reduce annuity payments.

In addition, AIPLA believes that there can be an increased emphasis on work sharing by which a patent application dully examined by a high quality confident examining authority would be granted and respected by other offices. AIPLA encourages the USPTO to work with international patent organizations to reduce the amount of time and effort needed to examine the patent application.

There also can be increased U.S. subsidies to WIPO to reduce the cost of filing the PCT application or WIPO could adopt a fee structure that favors small enterprises. Along the same line other countries could be encouraged to provide fee structures that are favorable to small entities.

In another area, USPTO and other federal
agencies can do a much better job educating small
businesses about the importance of international patents
and strategies for effectively pursuing international
protection. They could create a mentoring program to
help small businesses deal with various rules in
different countries. Such programs would be consistent
with the pro bono initiatives established under the
recently enacted America Invents Act.

Please note that AIPLA is committed to assist
the USPTO in its effort under the AIA to work with IP
associations to establish pro bono programs to assist
small businesses and independent inventors seeking
patent protection worldwide.

Finally, the USPTO could expend the patent
document exchange program to more countries making it
easier to perfect Paris Convention priority claims.

Now, with regard to maintenance of
international patent rights, the largest expense
involves government fees and vendor service charges.
Maintenance fees and annuities in many foreign countries
are out of line with the value of the patents and
pending applications. The Federal Government could
negotiate treaties with other countries to reduce
annuity fees for small entities, particularly during the
pendency of applications before they are granted.
Should the Federal Government consider subsidizing these
fees for small companies, even if limited to those
entities that have well developed business plans and
need international patent protection, AIPLA would be
centered that funding for office operations not be
adversely affected.

The start-up business that has found the money
to remain in business for five to ten years when most
maintenance expenses are first due should use its own
money to maintain its patent rights. AIPLA does not
believe that there is a role for the USPTO or other
federal agencies in such activity.

Lastly, with regard to the enforcement of
patent rights on an international scale, and given the
need for broad agreement on common principles, AIPLA
believes that the United States Government could
negotiate new treaties or more effectively enforce
existing treaties to prevent infringement of patent
rights.
Consistent with the previous recommendations on mentoring and pro bono activity, AIPLA would encourage the USPTO to create a task force, international patent law specialist, to help small entities. Such program could be on a voluntary basis. And expenses for administration of this task force can be paid for by minimal fees from the participating small entities.

AIPLA also believes an initiative could be undertaken to create an easier use of customs enforcement mechanisms that may be used by small businesses to at least temporarily impound infringing imported products. Currently, it is much more difficult to enforce patent rights through customs than copyright or trademarks.

Question six asks what role should the Federal Government play in assisting small businesses to defray the cost of filing, maintaining, and enforcing international patent protection.

As an overarching principle, AIPLA does not believe that the Federal Government should become involved with subsidizing the filing, maintaining, and
enforcing of patents abroad. These are private sector
issues that are best addressed by businesses whether
large or small. Nonetheless, it may be useful to study
the benefit of tax breaks for international patent work
and profits made through licensing abroad as an
incentive to bring money back into the United States.

In a similar vein, the Federal Government may
consider strategies to encourage sales abroad, for
example, by allowing patent costs to be expensed rather
than capitalizing them. The USPTO also could consider
policies that would result in the examination of U.S.
patent applications found by small enterprises more
quickly so that the strength of the invention is known
at an early stage and a determination may be made as to
where international patents should be obtained.
Accelerated examination under the recently implemented
track one is not favorable for small businesses because
of the high fee, even when reduced by one-half for small
entities.

In addition by taking examiners away from the
normal patent prosecution track, it further delays the
issuance of patents for those who are unable to afford
the track one examination.

Finally, AIPLA believes that the Federal Government could work more effectively under existing treaties and negotiate new treaties to obtain better enforcement of patent rights in other countries, especially China, and even to have international agreements on the importance of and advantages that should be given to small entities.

Question seven states, in order to help small businesses pay for the cost of filing, maintaining, and enforcing international patent applications, how effective would it be to establish a revolving fund loan program to make loans to small businesses to defray the cost of such applications, maintenance, and enforcement, and related technical assistance.

In the absence of concrete details of a proposed loan program, AIPLA assumes that such program would need to require a guaranty of repayment to the Federal Government so that the program would not come at the expense of the public or users of the patent system.

AIPLA believes that all available funds from users of the patent system in the United States should
be applied to improving the U.S. system. Once aversion of such funds ends and the necessary resources and infrastructure for a world class patent system are available, other uses of excess funds can be considered.

On a relative basis, obtaining a U.S. patent in the U.S. and abroad on key innovations takes capital that may be needed to develop and roll out a successful product. The small business itself or its investors who are best able to assess the risks of any given situation must make informed and intelligent decisions as to how their resources are invested in the like of an appropriate strategy for marketing their products and services internationally.

AIPLA believes that the venture capital system in the United States is proven to work very effectively in ensuring that some business decisions are made by small enterprises.

Question eight has a similar theme when it asks in order to help small businesses to pay for the costs of filing, maintaining, and enforcing international patent applications, how effective would it be to establish a grant program to defray the cost of
filing applications, paying maintenance fees, and
conducting enforcement to provide related technical
assistance.

The answers to this question is largely the
same as to question seven. AIPLA is concerned with
achieving the most effective and efficient operation of
the Office. Should a grant program be considered,
grants should not adversely affect that basic goal.

Question nine asks if the Federal Government
is limited to providing either a revolving fund loan
program or a grant program described above but not both,
which of these options would be more effective in
accomplishing the outcome of helping small businesses
pay for the cost of filing, maintaining, and enforcing
international patent applications.

Either a loan or a grant program has the
danger of adding to waste, fraud, and corruption, which
many see as endemic in government programs. While AIPLA
is not an expert in the area of business economics and
finance, it would appear obvious that small businesses
do not need more debt. Grants, tax deductions, or
immediate depreciation would be a preferred way to help
out at the front end of the process in order to help out eventually at the back end.

In any event, AIPLA suggests that a loan may be preferable to a grant, perhaps a commercial bank loan with a federal agency guaranty or some portion of the loan, i.e. similar to the SBA 7A or 504 loan guaranty programs. Keeping it simple, in working in the private sector with local commercial banks in the lead is preferable.

Intuitively, it would seem preferable that small businesses need to have significant skin in the game, perhaps as much as 50 to 80 percent of the project cost needed to be funded by the small business. This is because of a high technology risk associated with the early stage patenting cost. Commercial banks do not typically invest at this early stage, thus most of the cost needs to be borne by the small business and its investors.

Finally question ten concludes the inquiry and asks, are there circumstances under which the Federal Government should not consider establishing any of these programs.
With all due respect on a global basis, governments are notoriously bad at picking winners where business start-ups are concerned. However, should a government program be established, common sense would dictate that the small business should have a concrete business plan for manufacturing, selling or licensing products in other countries that is supported by market research. Further, such programs should not be applied to non-practicing entities with the possible exception of universities.

That concludes my comments. And thank you for allowing me the opportunity to give them today.

MS. GONGOLA: Thank you, Mr. Kasper.

Questions from our panel? We'll start with Stu.

MR. GRAHAM: Thank you, Mr. Kasper. Very enlightening. I enjoyed the comments very much.

I have two questions. The first goes to some comments that I heard you making toward the beginning of your statement and then followed up at the end about the relationship of international patent protection to other compliments, the way that we think about them as economists, those assets in marketing and distribution
that the company may build over time.

Is it enough that we try to create an opportunity for these entities to have patent protection, which, of course, just buys them an option -- ultimately buys them an option to go into the foreign country so long as they can bring the other things like marketing and distribution along with them? Is it enough, and if not, how do we think as a government of many agencies about helping the companies not only to preserve that intellectual property option but also to build the other things that are necessary to ultimately export and grow, et cetera?

MR. KASPER: Thank you for that question.

That's a great question.

I think the answer really lies in a much broader mentoring program. And if you think about what the government has to offer, it is, of course, a resource with many experts, but also it has access to private experts that in, at least the United States, are very willing to commit their time and energy to help for the good of the country as AIPLA has proposed.

I think reaching out beyond just the bar into the core of economists that are available worldwide and
maybe even having that culture or that focus developed on a global basis help small entities would enable those resources to be brought together and provide access to them. And certainly as we grow through the Internet and electronic communications, there is no reason that experts worldwide can't be available for that purpose.

MR. GRAHAM: Just a second follow-up question on your proposals as regards taxation. I think we have a lot of history and support for the notion that appropriate taxation policies can act as significant supports for economic activity. It does, indeed, seem like that's something worthy of study, to think about a proposal that would change the treatment of expenses associated with patenting.

I suppose one of the issues I was thinking about is that under a regime that allows for the deduction of ordinary and necessary expenses is only allowable against income. And oftentimes income is something that these young companies don't have.

So to the extent that this is a positive attribute, could some of these other mechanisms, grants
or loans, be used to support those companies that are just too embryonic and too new to be able to take advantage of the tax code for international patenting?

MR. KASPER: Well, the real core question is who is going to pay for it? And as you may have gathered from my remarks, a fundamental principle that AIPLA advocates is that the fees paid by users that go to the office should stay in the office at least until the office has the capabilities and efficiencies that the leadership wants to have and that the users need. That's the primary goal.

Once you have that, if there are indeed excess funds, then you can think about other ways to expand the system to bring in others who perhaps cannot afford it. So we are certainly not saying, no way would those be possible; it's just let's have a priority.

MS. GONGOLA: Other questions or comments from the panel? Dana.

MR. COLARULLI: Let me just make one quick remark. I thank you for your testimony, I appreciate it. You actually gave us good ideas of other things that are complimentary, which we appreciate, to
this type of study, particularly the pro bono program, to
the extent of what we're doing.

    I'll make one clarification. I
particularly appreciate the track one accelerated examination.

One of the things that the legislation gives us
when we set our fees is the ability to actually implement the
new micro entity fees. So that should hopefully help
this a little bit. But, again, a good reminder that
we're talking about resources for small business. Small
businesses don't have the resources to offset
those. So I think that's one clarification I wanted to make.

    The other additional thing to say about
accelerated exam is that hopefully by introducing this
program, it helps us speed up exam for all applications.
And as you said, I think you really can't quantify the
benefit there for all users of the system in terms of
certainty, and in terms of having a system that works.

    I just wanted to comment on that, and thank
you again for your testimony, and really some of your
good ideas on very short notice for pulling together
testimony.
MS. GONGOLA: Any questions or comments from the audience at this point?

Thank you, Mr. Kasper.

Let's take about a ten-minute break. We will resume in ten minutes with two more witnesses.

(Brief recess held.)

MS. GONGOLA: We'll resume our hearing on international patent protection for small businesses.

Our next witness is Mr. Stanley Erck.

Mr. Erck has more than 25 years of experience in the biotechnology and health care industries. He served previously as President and Chief Executive Officer of Iomai Corporation. He is representing Novavax and the Biotechnology Industry Association today. Mr. Erck?

MR. ERCK: Thank you very much. First of all, I'm not a patent attorney so you can't ask me hard questions. Okay? I'm a biotech executive. I have been managing biotech companies for the past 30 years. And now I'm with Novavax. I'm testifying on behalf of BIO and I will read some prepared remarks and try to bring up a couple of anecdotes about experiences that have
affected one or more of the companies that I'm with.

I'm on the board of directors of three biotech companies, two of them public. And one of them had a board meeting yesterday that had a very relevant discussion that I'll talk to you about at the end.

We'll start with that. Regarding Novavax we're a biotech company developing new vaccines that may be used to treat -- to prevent a broad range of infectious diseases, including seasonal flu, avian flu, something called RSV, Respiratory Syncytial Virus, rabies, and a variety of others. For those of you who have seen the movie Contagion -- did anybody see Contagion?

So Novavax's lead vaccine program is to develop a vaccine that will prevent precisely the type of virus that was a feature in the movie. So that's what we are working on. We just got $179 million HHS grant to work on that very program. So we're six months into the program, and we'll start human clinical trial on that vaccine next year.

We are local. We are in Rockville, Maryland and employ about 120 people. Novavax, like many of the
companies in the biotech industry, live and die based on basically two features. One is the data that we get from the human clinical trials that we execute in testing our drugs, and that's critical, both safety and efficacy data from those trials; but number two is intellectual property. We can't succeed without both. One or the other is insufficient.

So the Biotech Industry Organization or BIO is a nonprofit organization with a membership of more than 1100 bio companies, academic institutions, state biotech centers, and related organizations in all 50 states and a number of foreign countries. BIO's members are involved in the research and development of health care, agricultural, industrial, environmental biotechnology products. U.S. life sciences industry, fueled by the strength of the U.S. patent system, supports more than 7 million jobs in the United States and has generated hundreds of drug products, medical diagnostic tests, biotech crops, and other environmentally beneficial products, such as renewable fuels.

The majority of BIO's members are small companies, like my company, Novavax, that currently do
not have products on the market. As such, BIO's members rely heavily on the strength and the scope of their patents, both domestically and internationally, to generate the investment necessary to sustain their long product development cycle. On average, it takes more than ten years to develop the biotech invention from its inception to regulatory approval and market launch. The average fully capitalized cost to developing a biologic medicine has been estimated at over $1.2 billion per drug.

Interestingly, I was at a cocktail party the other night where Human Genome Science, a local company that I think most people in this area have heard about -- I was talking with a representative from HGS. They started in 1992, raised $2 billion, and just this year got their first drug approved. So this is an investment heavy industry.

For BIO's small companies, pursuing international patent protection occurs early in the company's life cycle. All biotech companies understand that the products they hope to develop require robust patent protection abroad. This is because when a small
biotech company seek assets through capital to sustain
their existence a central factor for their valuation is
the strength of their IP portfolio. In fact,
empirically, we know that U.S. biotech companies are a
large export of IP.

United States is by a wide margin the largest
originator of international biotech patents in all major
markets. Small biotech companies hold approximately 80
percent of the development pipeline for new medicines,
diagnostics, and other bio based products.

As products advance through development, small
biotech companies often need larger partners to develop
their experimental products to a market ready approvable
stage. In each case, such partnering depends on robust
patent rights that will secure all partners a return on
investment.

Small biotechs often bear the initial burden
of procuring international patent protection since
patent rights must typically be sought early and near
simultaneously in the U.S. and in foreign jurisdictions.
This enables a small company to partner with larger
companies later in the product life cycle in order to
export their products internationally. It is not an option for a small biotech company to wait to secure foreign patent protection until after such partnerships as possible forfeiture of patent rights is too great a risk.

It is imperative that small biotech companies plan ahead, even at their inception, to ensure that over the ensuing 10 to 15 years they have the opportunity to partner with larger companies to export their products internationally.

What then are the challenges small biotech companies face when filing for patents internationally? First and foremost, international patent procurement is expensive. Foreign biotech patent prosecutions are both complicated and subject to greater non-uniformity of the law when it is in many other -- many other technologies. Patent claims scope, and what is permitted can differ significantly from country to country which complicates and increases the cost of international patent filing for biotech inventions. Without procedural or substantive harmonization, these problems are likely to increase costs for small biotech
companies.

In addition to filing and prosecution costs, uncertainty limits the ability of small biotech companies to limit patenting cost. Small biotech companies must patent early in their development life while simultaneously trying to predict which patents will be valuable in ten years and which patents will not. As such, biotech companies deal with slowly developing technology that does not allow them to decide to abandon or maintain a family of applications before the real prosecution costs kick in.

For example, a biotech company who files a U.S. patent application today and a PCT application one year from now has only 30 months to decide whether to abandon the application if it wants to avoid the cost of entering the national stage in a number of foreign countries.

30 months may be enough in some other industries, but in biotech it's too soon for an informed decision. Including translation costs, the aggregate expense of entering the national stage in Japan, Korea, Europe, Australia and the NAFTA countries can easily
exceed $100,000; if the BRIC countries are added, cost can double. Attorney fees, once prosecution begins, add another layer of cost.

Many such costs must be incurred before a biotech company is able to decide whether to maintain or abandon the application. We have small member companies with 30 or 40 employees who are many years away from the market who must every year reserve for patent prosecution several hundred thousand of their sorely needed dollars.

I looked up Novavax' patent cost just for foreign filing fees. This is a company that has 80 or 90 or 100 people over the last four or five years. We paid $1.3 million for our patents and foreign filing fees, and if you include all of the costs associated with that, it goes into the many millions of dollars. So it's an important part of our spending cycle.

So uniformly, such companies would prefer to spend, including Novavax, spend their money to advance their science. This USPTO study and other initiatives like that has the opportunity to provide solutions that will save small biotech companies significant money,
money that could be spent on research, researching life-saving products, hiring technicians, engineers, scientists, and accelerating the pace of biotech technology innovation.

We are aware of grant or loan programs in various foreign countries aimed at helping small businesses defray costs for both domestic and international applications. China is one such example where administrative finance in 2009 started subsidizing patent filings for foreign patent applications made by small and medium sized domestic enterprises and probably scientific research institutions.

WIPO's small and medium size enterprises program, White paper, on what's called Managing Patent Costs, reports that in an increasing number of countries, governments and other funding agencies that provide grants or subsidies for R and D innovation activities to research institutes, universities, and enterprises have begun to allow a portion of the funds to be utilized for meeting patenting cost.

For our small businesses, securing IP protection is just as important as obtaining laboratory
equipment, leasing space, or hiring creative dedicated
employees. And because IP business assets are at least
as important as other more tangible business assets,
there is no reason to exempt patent rights from publicly
funded small business assisted programs that are
available for more tangible assets, such as capital;
equipment, hiring, or leasing space.

Extending the range of public assistance
programs for patent rights for small businesses would
help small biotechs spend money normally allocated to
patent filing and prosecution elsewhere.

The particular mechanism for helping small
businesses file patent applications internationally
requires additional thought, and BIO's members have no
final view on the matter. Generally, it would seem
important that any program, in order to be effective,
would have to be adequately funded so as to make
a meaningful difference to a beneficiary business.

Financial assistance could be in the form of
grant, refundable tax credit, or matching program.
Recognizing that most small biotech companies do not
have tax liability, such mechanisms would have to be
structured in a way to make them just as useable as for
tax paying companies.

A matching program where, for example, every
$2 of the company's money would be matched by $8 of
grant funding has the advantage of providing assistance
while keeping the small biotechs' skin in the game,
thereby ensuring that the company would still have to
make careful business decisions where they file
internationally. Further thought on these mechanisms
and how they would affect small biotech companies is
necessary.

So on behalf of BIO, I'd like to thank the
USPTO for the opportunity to testify. BIO hopes that
the USPTO finds a way to defray the hundreds of
thousands of dollars it costs small biotech companies to
file and prosecute patents internationally so the small
companies can spend more money on research, job
creation, and product commercialization for the benefit
of American workers, patients, farmers, and consumers.
That's the end of the prepared speech.

But I was at a board meeting, sitting at a
board meeting yesterday of a company down in North
Carolina, biotech company, with about 70 or 80 people
that have been in business for ten plus years. We were
discussing one of our programs, where we had gotten
clinical data on an important drug in their pipeline,
and the data were great. So we're anxious. We're
through phase one and into phase two now in this process
of phases one, two, and three.

We were talking about partnering the program
with a large foreign company. So the usual questions go
on, who are the likely partners in that. And then
someone raised the question, what does the IP look like?
We said, it looks great, we filed, we think we are
clearly earlier than everybody else, we filed the
patents five years ago, and in the U.S., Europe, Japan,
and a couple of other countries things are good. But we
didn't file in China, India, and countries like that
five years ago. Why not?

Well, five years ago the company had run into
cash flow problems and were trying to squeak out their
existence, and the decision was made, are we going to
spend -- they named a number, 50 or $100,000 -- to file
in BRIC countries or not. And they made the decision
not to file in China and India, which now going forward with a drug that is going to be maybe in the market in the next three or four years, it will influence their ability to partner and it directly affects the value.

It's just interesting that knowing this was coming up today, that that very question came up yesterday in the conference. So real life example.

MS. GONGOLA: Thank you, Mr. Erck, for both the prepared and the anecdotal on-the-fly testimony as well.

Question from Stuart.

MR. GRAHAM: Thank you. My question actually dovetails on your anecdote that you just provided. I'm very interested obviously -- you know, if we want the biotech company of today to be the Genentech tomorrow, we have to be concerned about the way in which not only the entrepreneurial capital flows to the company, but also the ability of that company ultimately to have a successful exit event, whether that be an acquisition or to go into an IPO.

I'm wondering from your own experience in the industry, what role does the effective portfolio,
international portfolio of patents play when investors or possible acquirers or the markets themselves, are ultimately looking at the full assets that that company has?

MR. ERCK: We're all incredibly capital intensive. My job as CEO is largely to raise money to support the hundreds of millions of dollars it requires to run these companies for a few years. The ability to do that or the ability to do it at a lower cost of capital is directly proportional to the two things I mentioned, the value, the perceived value of the clinical data that we get in human trials, or for that matter animal trials; and number two, the perceived value of the patent portfolio, and it's no longer just the U.S. U.S., of course, is important, as is Europe and others, but that whole international -- and you will attract or not attract investors based on the strength of the intellectual property portfolio.

They'll gauge you on whether they think you can get a partnership with one of the large foreign companies to commercialize in most countries, and that's based in part on the data and in part on the patent. So
MR. VISHNUBHAKAT: Thank you, Janet.

Thank you, Mr. Erck. Your testimony regarding this capital intensive industry is very important to our questions.

You spoke kind of on two threads, about obtaining the costs -- the rising costs of foreign protection through procedural and substantive harmonization, as well as expressing support for grants and programs to defray the cost. I was wondering given the capital intensive nature of the biotech industry, if you could provide a sense for us in the short run which of the two would provide greater returns.

MR. ERCK: That's a tough question to pick between the two, because harmonization and defraying of out of pocket, in your term, costs are both important, and they are obviously related, because in harmonization, the cost is more, not harmonizing. So I don't think I have a favorite horse to ride there. I think both of those are important.
MR. VISHNUBHAKAT: Fair enough.

MS. GONGOLA: I have a question. You spoke about the subsidization program that's available in China. Has your company taken advantage of that or do you know about any --

MR. ERCK: It's for subsidizing Chinese companies to file outside of China.

MS. Gongola: Then that answers my question. It's not available to U.S. based businesses.

MR. ERCK: Right.

MS. GONGOLA: Do you know the extent to which Chinese businesses have taken advantage of that program?

MR. ERCK: We have a BIO representative that might.

The answer is, no, we don't know.

MS. GONGOLA: Thank you very much. Dana has a question.

MR. COLARULLI: Janet picked up on one thing. I'm glad that you mentioned that in your testimony. I think I gave Gary Peters, the representative from Michigan, the credit for introducing this in the patent reform, but it's not an idea that hasn't been floating
around in some of our appropriation bills. One of the
active discussions here, if other countries like China
are doing this, the U.S. should as well. And I think
that's an important aspect.

I didn't have a question, but I just wanted to
thank you for putting that point in there. You know, it would
be curious to see the extent of which those companies
are taking advantage of those types of programs in other
countries. And frankly the U.S., should be taking
advantage of it.

MS. GONGOLA: Questions or commentary from the
audience? Mr. Kasper.

MR. KASPER: One of the things that we
continue to talk about is having skin in the game. And
I wonder whether your association has looked at the
issue of service providers who provide legal services
having skin in the game of foreign filing. Obviously,
there are a number of companies that are members of BIO,
and the thought occurred to me as you were talking
whether there has been any study or there's any trend or
any anecdotal data as to how many of your member
companies have their attorneys, for example, provide
services in exchange for equity or other shares in the
companies.

MR. ERCK: I can answer only from my
experience and having been the CEO for three or four
biotech companies over the past 30 years. I have never
had attorneys who have been willing to take equity for
patent filers. But I don't know.

Does BIO have any? No, okay.

MS. GONGOLA: Other questions or comments from
the audience.

Thank you very, Mr. Erck, you may be seated.

And now concludes the closure of our scheduled
testimony, but we have two witnesses so far for
unscheduled testimony. Our first witness is Mr. Steven
Caltrider. He is Vice President and Deputy General
Counsel for Eli Lilly and Company. I believe he's
testifying today on behalf of the American Bar
Association IP Section. Mr. Caltrider please take the
podium.

MR. CALTRIDER: Thank you. Of course,
testifying on behalf of the ABA, you have to start with
a disclaimer because most of you are aware that the
views that I express are on behalf of the section of the intellectual property law of the ABA. It's not approved by the House of Delegates or the Board of Governors of the American Bar Association, so it should not be construed as representing the policy of American Bar Association.

I also want to start off with a thank you to Patent Trademark Office for the reference in America Invents Act. They've been outstanding to date. And the Section is looking forward to providing additional comments on numerous sections in due course.

The unfortunate thing about this session in particular is that your schedule is quite aggressive and quite impressive and faster than the American Bar Association that I was able to meet. So much of my comments are limited by the fact that we didn't have an opportunity to establish Section positions on specific questions that you asked today, but I'm tapping into some of the past policy positions that we've supported over the years, many of which are not new to the PTO at all.

So we don't have any comments on whether a
loan program or a grant program would be best for small
business, and we really don't have a lot of unique
incite from a small business perspective. Certainly a
number of our members represent small businesses, but we
never approached the question from a small business
darly. So I'm sharing my incites from a
user perspective, which benefits all businesses, but
certainly those businesses with the smallest budgets
would be impacted the most.

We continue to support and advocate for those
efforts that reduce the cost substantially, and we've
heard a number of those topics today during the hearing.
Greater harmonization of the patent laws both
procedurally and substantively leveraging the PCT,
Patent Prosecution Highway, those initiatives, as well
as substantive -- those are procedural issues, and for
substantive issues to get greater certainty in
commonality in law, so that when you file a patent and
you file it internationally you understand what rights
you will get generally speaking worldwide and how to
leverage those rights.

We support also the initiatives to eliminate
the need to pay the full cost duplicative examination. As a number of the patent offices worldwide get far more sophisticated in their ability and the laws harmonize to a significant extent, deferring the cost or consolidating the cost of examination rather than duplicating the cost of examination across foreign jurisdictions is something that the Section supports. Limitations or elimination of translation, Section would love to see English as the common language, as I think the accepted language of the sciences, and most scientific journals are published in English. The elimination of translation requirements or at least the minimization or deferring of translation requirements either to grant or some time very, very late in the process or minimizing the number of translations would be very important to the Section. Supporting regional specific reforms, such as the community patent in Europe, which is intended to minimize the cost for a patent in Europe, both for enforcement and procurement, again substantially driven by reducing the number of languages that were required in the community patent, all of those majors would
benefit all patent applicants, particularly those with
the smallest budgets in order to afford and pay for
those services.

In addition to harmonization -- and I
mentioned it earlier -- the greater certainty that would
be afforded through substantive harmonization of law
would very important. There's a great divergence at the
moment in many countries on what scope of protection you
can get, what subject matter may be patentable, what
data is required to support the protection. All of
those issues introduce significant costs as you try to
either file one patent application worldwide, and then
you find out later that the patent application is
deficient or if you're tailoring your patent application
in a country specific manner particularly as you enter
the international phase, it introduces a great deal of
cost and a great deal of burden on applicants to do so.

With regard to enforcing international patent
rights, I think much of the focus today has been on the
procurement side, and certainly that's where the
expenditures are most acute because the technology is
not yet proven, so it's an investment.
On the enforcement side, generally speaking, for two parties to have a dispute, there is already value proposition associated with the patent. So I think the issues, in my opinion, at least, are less acute; however, if you get to the stage of enforcement, if you find your patent is not worth what you thought, that clearly is a problem. So the Section continues to support those activities that provide greater enforcement certainty; international treatises that provide the remedies of injunctive relief, compensation for actual damages suffered through infringement.

The Section's closely monitoring efforts on improving IP enforcement, certainly regions such as China or other regions of the world that were enforcements less proven to be effective, if you will. The Section is closely monitoring the formation of the commonly IP court in Europe. That currently is a very interesting debate. While single form could provide what would appear to be more cost efficient resolution for an IP dispute, if the procedures and the rules of procedure before the court are not sufficient, particularly having cross-examination of evidence and
witnesses, you would not necessarily have a better
program in the long run in terms of a fair system of
justice.

The ABA section of intellectual property law
appreciates the opportunity to provide this testimony,
with some apologies that it's more limited, and given
the timeline in terms of rearing a policy position from
the Section. I'm happy to answer any questions you may
have. --

MS. GONGOLA: Thank you, Mr. Caltrider. All
testimony, long or short, is most welcome.

Do we have questions from the panel?

Audience, questions or commentary?

MS. GONGOLA: Thank you, Mr. Caltrider, you
may be seated.

We have one final witness to give testimony,
Mr. Patrick Bahn, who represents TGV Rockets.

MR. BAHN: Thank you, ladies and gentlemen of
the panel. I didn't have time to prepare testimony, so
you would have to bear with me.

I think this is a very good idea, and it's an
administration and congressional idea that I think
deserves an awful lot of support. I'm glad to help in any way I can.

I would suggest that from where I stand that helping us get patented is more important than helping us fight. If we have a patent that is worth a lot and there is a dispute over it, I can get lawyers to buy in, I can get investors at that point. But it's when it's that new idea, you know, whether it's the, hey, we can put a computer on a piece of silicone, you know, when it's the, hey, let's put a music player in your shirt pocket, those are ideas that are laughable, and that's where it's hard to get the investment. So any assistance in reducing our cost entries there pays off a thousand fold.

Apple Computer is what they are, one of the largest corporations in this country, because they had the idea that you could put a music player in a shirt pocket. Two-thirds of their product is based upon evolution from that concept.

I do want to stress to the panelists that there is an inherent danger of loans versus grants in any of this assistance, because loans create contingent
liabilities and they create order of precedence

Having done an SBA loan, I was carrying all
these strange contingent liabilities on my own personal
balance sheet and on the corporate balance sheet that
was just freaking out other potential credit sources,
because they go, we see this here and it's the Federal
Government. And if anybody has ever done property, just
trying to do a refi, the first thing you have to do is
clear all those little -- you can have a $2,000 home
equity line of credit and that can block a half million
dollar refinance. It's that kind of problem.

Especially in our field, which is possibly
second only to biotech in the length of time it takes us
to deliver product, you know, carrying around the
contingent liabilities that block our ability to do
other credit.

I support the prior speaker who was saying
that if you ask to put skin in the game, sure, look for
our other investments in it, look for whether we spend
money with providers, the micro entity reduction in fee.

But there is a great hazard in that contingent
liability. The other one is -- this is a little bit outside of it -- anything that the PTO can do to speed up first action, because it makes it a little uncertain to us whether or not our patents are going to be sustained.

I'm a sales guy. The next best thing to a yes is a fast no. So if PTO says no, you know, I can adjust my marketing plan. But if I am off in this strange 18, 24-month period where I am starting to talk to people about really breakthrough concepts, and then I find out from my first office action down the line -- I mean, I'm in that strange mode right now and I find it very disturbing.

The micro entity fee structure is, I think, important and brilliant. And there is one idea that has not come up that I think is worth discussing: Patent and trademark ultimately comes from the United States Constitution. The Founding Fathers of this country were brilliant visionary people. They saw two-and-a-half centuries down the line on a system that has produced tremendous amount of wealth and human happiness and they chose to stick patents in the constitution. They were
talking to you. That's a very grave and important
charge we got from our Founders.

And for the taxpayers and for the PTO to
assist us in making these is, I think, a good idea. But
then we have something in the social contract back that if
you help us, there should be restrictions on the export
of these patent rights overseas. I mean, if GM or
Sandoz (phonetic) wants to be trading their patents
, that is their business, but if the
taxpayers are going to help us create these, there
should be restrictions or claw back penalties that these
patents have to stay with a U.S. entity, and then if
they do produce enormous value, they are taxable to the
American taxpayer, and that that gives you a political
result to show that you've invested into these, the
patent stayed here, the wealth was captured by the
American economy; and that's very, very important.

I'm okay with the government taking tremendous
amounts of risk scattering bread crumbs out on the
water, but the American taxpayers should have some right
to reach out and get ten times what they got back.

When the United States Government helps people
go to med school through the Indian Health Care, they require you to give either a certain number of years of service wherever they want or you have to pay three times your initial grant back to the IHS. And certain people have discovered that life on the reservation in South Dakota is not to their taste and discovered that paying $750,000 is also not to their taste, but it's part of that social contract.

I believe that's important. I mean, we have people stacked up on Wall Street, McPherson Square, ready to burn because we have failed to associate the social contract to government policy. And I think that's an important thing to consider.

And with that I'll take questions.

MS. GONGOLA: Thank you, Mr. Bahn. Questions from our PTO panel. David?

MR. CHAIT: Thank you, Mr. Bahn, for your testimony as well as some of your earlier questions. My question to you goes back to the sources of capital. I appreciate your comments regarding the issues relating to the loan programs and contingent liability issues. My questions for you relates to the
current state as we're trying to understand what are the
current status and where are our folks financing some of
the international patent projects.

So my question for you is, as an alternative
for traditional loans, where does a company like yours
or others that you have seen go?

MR. BAHN: Well, to quote a comment that I
said to the press in 1999: One of our largest investors
is American Express, they just don't know it yet.

I mean, that is one of — essentially we
either scratch up micro capital, fool friends and
family, we do without. Frankly, right now I’m looking
at bypassing most international patent rights because
it’s too far afield and it’s too risky. It’s
challenging enough for us to market our concepts within
the North American economy. We understand it.

And the cost — and this is worth it for the
record, the cost for me to go out to California and
spend a week, bopping around in L.A., San Francisco and
talking to people is under 1,000 or $2,000, if I am
careful. The cost for me to go to Paris or London is on
the order of $10,000. Much risk and also much riskier,
because frankly, they don't want to talk to one of these damned Americans. It's a much lower return on investment and a much higher cost.

So, you know, I know of other people in similar situations who are just passing on international rights. In our global world, that's tragic. So when I heard about this, I rejuggled my schedule to come down here and talk about this sort of thing.

I mean, the big outfits, they're operating globally. Piece of cake for them. Small outfits, very, very, very difficult.

MS. GONGOLA: Question from Stu.

MR. GRAHAM: Thank you, Mr. Bahn. So this might be an unfair question, but to the extent you can answer it, if you were to decide to pursue that marginal international patent, spending the many tens of thousands to get it, what would it come at the expense of? What would you not do in order to pay for the patent?

MR. BAHN: Food, shelter. One of the other speakers was talking about -- this is on the order of half or one single full-time employee, and that is exactly the kind of problem. You look at trying to sack
people out of your engineering budget; you have to look at cutting it -- you know, four years into the greater recession, it's a fairly painful process. It's really a question of what other vital priorities die if you want to pursue that sort of thing. You have to look at the cost benefit analysis.

The cost benefits are usually significantly better for the domestic case than the international case, even when their ideas are worth billions of dollars. You have to look at those costs. But if the PTO is able to change that calculus and drop it down to on the order of what we pay for our domestics, then it's worth it to roll the dice.

But cost of translation, cost of international filings, cost of maintenance in the first couple of years. I mean, if the idea is really truly guarded it may not come through. But the first filing and the initial maintenance, you can really change that.

Small businesses are really your source of innovation. They are where your interesting ideas come from. So if the administration and the Congress is trying to push this through it's a very farsighted
thing.

MS. GONGOLA: Comment from Dana.

MR. COLARULLI: Comment or question. Thanks again for coming out. You are the target audience for this discussion. I was glad that you highlighted the issue of the importance of first action and the speed of first action. That's one of the things the current USPTO has been building the budget to do, and have spent tremendous amount of resources over the last two years.

So, again, in a few years we will have hired the workforce we need. We have this system to get to 20 months for final action, 10 months for first action. That's the goal that we stated in the present budget press and all our budgets. And if the AIA helps us to get there quicker, it helps us get a little more certainty to our funding and provides additional resources.

So I think you're exactly right, I think the value there can't be undervalued.

MR. BAHN: If you can get it down to 90 days, because that's within our planning. In 10 months, next year, who knows what is happening. But I mean, if that
first office action comes back in 90 days, we can
rapidly react.

MR. COLARULLI: 90 days is tough.

MR. BAHN: I realize 90 days is tough. I'm
not giving you an easy problem. I'm just telling you
that we have hard ones.

MR. COLARULLI: Certainly, as you said, with the
amount of uncertainty, the quicker we can act in that
time frame the better. I think that point is well taken.

I want to ask you, a number of folks and a
number of witnesses mentioned additional resources or
parallel things for funding that the PTO or the
government can provide. Getting the funding, certainly,
and you reiterated the focus is on your
mind, earlier helping to offset the filing cost.

But what other services do you think are most
important for PTO to look into that are non-monetary to help
you

and others like you to be more successful, particularly
in patenting?

MR. BAHN: Now I've got to think about that.

MR. COLARULLI: It's a good opportunity for
written testimony.
MR. BAHN: On the one hand the PTO is a judge, you're an arbitrator, you're referees, and I am loathed to ask to you step outside of that role. You fundamentally have to kind of sit there and listen to all these whacky little guys and all these big organizations, global multinationals and try to treat them all very fairly. But then at the same time you're also trying to encourage the general filing.

So maybe some of the tools by which we do the filings can be improved. I mean, certainly there's been a tremendous amount of work done both by the third-party sector and search tools.

I'm old enough to remember when you had to go to Chicago Public Library and go downtown and go into the second basement below and pull microfiche and sit there and read patents. That I can sit in my living room on the couch with my iPad and surf through Google patents is a big plus.

Now, what is a little bit unnerving to me is I have no idea what Google is doing with that. I'll put an interesting phrase in there. Is there somebody the next morning sitting there at the park or Sunnydale
reading the search terms and going, that sounds really interesting, should we do that.

If that sort of service could be provided by a neutral third party, you know -- you know, there's always that slight worry that I'm feeding the world's largest multinationals my good ideas through the search process. And if you have a truly brilliant idea, what are you giving away to people who have no duty to treat you fairly?

And I hate to talk about these guys. But the Intuit Corporation at one time created a wonderful set of tools for Turbo Tax and QuickIt. And they kind of created these very powerful tools that let you pull a bunch of stuff together. And if there was a sort of generic open source patent writing tool that, you know, went out and, you know, pulled all this together and simplified sort of the initial process -- I don't mind paying my lawyer to think. He's a very smart guy, and I want pay him to do top notch stuff.

If I can sit there and kind of format it up roughly and have that sort of tool that let me get it together in some halfway decent fashion, particularly if
it was open source and non-priority, that would a useful sort of thing.

The open source community has done an awful lot work. And when you're doing your first patent filing, all that stuff is very scary and very challenging. So that might be different.

The other one is just -- You Tube has created a tremendous amount of valuable community assessable multimedia for how things work. If you could encourage some of the social media tools and some of the -- to have basics on, you know, kind of short videos on how this all works and what all this means because you know I hate to sit there with a lawyer and paying him $300 an hour to explain the basics of PCT. There's other people I can go to. But still there's an awful lot of people off in Idaho who may have a great idea and have very few resources, and the Internet can provide them a leveling source. That may be something.

I will think about this and see if I can comment on written testimony later, but those are the first couple of ideas off the top of my head.
MS. GONGOLA: Questions from the audience or commentary. Mr. Reed?

MR. REED: This is part question and part comment. I think the interesting part you raised about cost and how do we offset them, I was thinking about it while I was sitting here. The only successful venture capital of the government is called In-Q-Tel. And for those in the audience who don't know what In-Q-Tel is, it's the venture capital arm of the intelligence community.

And the reason they are able to take the risks is that no one asks them about their failures. So it will be very hard for any other government agency to take the kind of risks that In-Q-Tel does, because no one asks them questions.

What do you think about the idea of being able to limit -- about the loan and the grant that limits -- limits it to allowing us to get a foreign filing that -- so we know the government won't take risks. The SBA is not In-Q-Tel. The SBA isn't capable of that.

What if as a person if we were able to lower the FTE loss to just say, look, here is my patent, I've
paid my lawyer. Will the SBA be able to fund or
subsidize my Chinese translation or my translation?

So it's a limited scope that ends up adding a
marketable value because in the end, I now have a patent
in multiple countries as you accurately pointed out.

So the AIPLA's commentary about skin in the
game, maybe if we limited it to just help us with that
narrow swab of internationalization, what do you think
of that as a way to get out of the risk problem that we
know the SBA won't be able to solve?

MR. BAHN: Certainly that sounds good.
Certainly, it would be simple to administer. It's
always -- the easier it is and the more likely you can get a
GS7 to wrap their head around what you're doing, the
more likely you are to succeed, because the folks on the
panel are all wonderful and top notch people, but the
rubber hits the road at the GS7 clerk level. So
something very, very simple to administer would be a big
plus.

The State of Oklahoma has some interesting
tools. They go through the -- they go through the State
University, and you pay a fairly minor fee, and they
have very smart professors who are attached to this. They help you do a pre-patentability search. They try
and do a, does this make any sense or are you just doing the laser cat toy.

For those who may not be familiar, someone got a patent on a method to entertain cats with laser pointers. I admire their boldness, but I thought it was possibly the single most ridiculous and unenforceable patent I had ever seen in my life. What are you going to do, sue everybody that has a laser pointed at a cat?

They try to do a logic check on it. I mean, maybe some sort of cooperative program pushed through the land-grant university system where, you know, they provide that level -- you know, they provide that sort of assistance at the state level, that might be something to look at.

But, I mean, if you're a small entity and you've done the U.S. filing and the patent office just says stamp -- you pay 10 percent of the international fees, you stamp it off, and we'll go with that. Sure, that's easy to implement. That's certainly -- but like I said, if the American taxpayers are going to put their
money into something, there should be some return to they point back to. I think it's unfair to ask the taxpayers to pay for this and see these patents end up all in Bermuda and the island producing trillions of dollars sitting offshore and waiting for a tax holiday to come back. That sort of unfairness in our system is crushing the American into a class.

So if you are going to invest, look for a decent clawback or some sort of restriction on where this IP can sit.

MS. GONGOLA: Other questions or comments from the audience?

Please state your name and if you're representing an organization.

MR. BROWN: My name is Mr. Brown, and I have been a patent examiner here for a decade, and I work in T.V. and interactive distribution. I just happened to be walking by today during lunch and saw the forum.

I had a question for the inventor, and it also could be answered by some of the other participants. Since the focus of this forum is on international patent protection -- for instance, I've worked on a lot of PCT
applications and it seems to be that part of the issue is the question of when an inventor is taking his or her idea and applying it to the different countries. Part of the issue is, from my perspective as an examiner here -- and I think I was just sharing with one of the panel members -- you know, when you're applying for a patent, I mean, it's sort of every situation is different and whether or not you get the protection is based on what your idea is with respect to all the other ideas out there, already patented or intellectual property that's out there. I think one of the participants mentioned that the government shouldn't be in the business of picking winners and losers.

So beyond that, what sort of structures -- for instance, one of the things mentioned is translation services. I think that's a uniformed kind of thing that could be done. Obviously, it is a question of money.

But beyond that, let's say if -- with respect to the PCT, would the panelists or the presenters state that, for instance, if an inventor has an idea and one applies for the PCT, should the international structure be such that if that idea is granted sort of as an
international patent so that, for instance, whatever
patent that is granted, not necessarily out of the U.S.
or out of any particular country, but should there be
sort of an international patent so that, you know,
therefore you don't have to apply in every single
country or would that, by definition, be a problem
because each country has their own sovereignty?

So it seems to me that the questions that
we're getting into is, you know, either you have a one
size fits all model or you simply have to do it every,
you know -- country by country by country, because each
country is different. And a patent examiner in China or
EU or France or whatever, that person is examining a
case based on intellectual property he or she is looking
at; and so a patent may be granted in one country and
maybe not in another country. And that is some of the
issues that we see with PCT.

So the question is, are there structures that
can make it simplified such that one thing is stretched
across the other countries so that it's, you know, like
that? So the question is, are there structures that
could be done that would level the playing field?
MR. BAHN: That was kind of a broad ranging comment. From where I sit, we take the world as it lays. I mean, there may be better ways for the patentees to be organized, but I have a strange and vague feeling that it was very painful for you to get to where you are today.

I am loathed to ask the members of the panel to take on a global flight. It took a panel and the people doing the system, who are all intensely smart and well-meaning people, millions of man years to get to the system we have. Changing that system is always difficult and painful.

But the panel represents the United States Government. The United States Government is good at one thing, writing checks. I have my master's in government. The government is extremely good at writing checks. So writing checks to help us just cover the filing fees.

It's my duty, if I'm interested in a Chinese patent, to adjust the patent to meet Chinese requirements. If I'm writing a patent in Indonesia and there's not a lot of prior art there, I can claim the
iPod. That's more sort of the thing for me.

I mean, the system is what the system is. How we choose our business strategies, you know, we do that from our best instincts and best analysis.

As one of the other speakers spoke about, helping reduce the barriers, whether that's translation or whether that's fees. Those are basic common good expenditures by the government. You're good at that. All of you represent the United States Government in some way, shape, or form.

The other one is I believe the State Department and the DOT spend a lot of money in translation as it is. So you may be able to leverage those investments. I know the State Department spends an awful lot of money getting all the international press. There's other agencies that are spending an awful lot of money translating international technical work so the American scientists are able to read the latest and greatest Russian scientific literature.

So you may be able to leverage those efforts in kind of a cross agency working group. Then it becomes a little more cost effective rather than setting
up your own.

And especially duplication. It's asking the State or asking NIH or asking Department of Energy to just broaden their effort, a little bit of money from you guys to -- the State Department to push out just technical literature into the patent literature may just be the simplest and cheapest way; you write a check to another government agency. That's even easier. But that's kind of my thinking.

MS. GONGOLA: Comments from the panel or other audience members?

MR. CHAIT: I would just like to say thank you for the comments from the gentleman as well as from Patrick.

And sort of taking a lens on that, we see a spectrum of ideas that were just laid out, but what I'd like to say that I appreciate the most is the concept that was laid out of what are value added services, programmatic changes, et cetera that hit a broad swath of individuals seeking international patent protection and what are the types of structures that can be created to help support this, a long variety of things
ranging from translation services, et cetera.

So as we move into a period of written testimony, I think that whether or not the efficacy of some of these ideas lay -- that's a mix -- obviously a reported evaluated, et cetera. But laying out these new types of ideas is just fantastic. So I just want to say, probably many folks agree, thank you for that and to keep those coming.

MS. GONGOLA: Other comments?

MR. TRAMPOSCH: Thank you for all the comments and that follow-up.

Just to let you know how good your ideas are, we have been working on them for over 130 years. It goes back to the Paris Convention which established something that anyone who ever filed a patent application knows about, and that is priority period. Also, the Paris Convention established the national treatment principle that says you have to accord the same benefits to foreign national as you accord to your own nationals. This is extremely important.

The process continued through the Patent Corporation Treaty in 1970, the agreement in 1994, and
our office is in very intensive discussion with other offices around the world on harmonization on patent laws; and that goes back at least 25 or 30 years.

More importantly we are looking at practical ways to do exactly what Examiner Brown was talking about, and that is how to reduce the duplication of examination around the world. And we refer to that now as work sharing.

We have a number of processes that hopefully as an examiner you will get to know very well. One of them is the PPH, Patent Prosecution Highway, where an examiner like yourself can utilize the work that was already done by examiners in other offices. And there are other ways of work sharing that we are looking specifically to reduce the cost, to accelerate the examination, and to facilitate getting patents, especially by small businesses.

So that's a long winded way of saying that, what we are looking at now is what are other ways that we can help small businesses to obtain patent protection around the world. We are not close to a single world patent. We are close to a single European patent, but
we’re not even there yet.

So that may come down the line. It may be a good idea, but may not be. The question is, how can you get patent protection in a large amount of countries where you want to market your product to get the full value out of your innovation? You'll get the full value out of your innovation if you have patent protection around the world and can market it in all those countries. How can you do that without breaking the bank? I think today's discussion has been an extraordinarily good step forward in that discussion.

MS. GONGOLA: Any final comments, panel or audience?

MR. BAHN: Thank you to the panel for having me out here.

MS. GONGOLA: Today's participation in our international patent protection study has been wonderful. To Mr. King, Mr. Reed, Mr. Kasper, Mr. Erck, Mr. Caltrider, and Mr. Bahn, as well as all of you in the audience, I cannot emphasize enough how much your input is valued by the agency.

It is our goal to make our report on this
study as accurate and well informed as we possibly can.

As a final reminder, written comments for the international patent protection for Small Business Study and Prior User Rights Study are needed by November 8th. Our reports to Congress will be produced in mid-January for both studies.

We encourage those watching today via the microsite to consider submitting their input. It is still not too late to do so.

I now officially close the international patent protection hearing and wish you all a safe travel home, wherever that may be.

(Thereupon, at 3:58 p.m., the hearing concluded.)
CERTIFICATE OF NOTARY PUBLIC

I, Janie G. Arriaga, Court Reporter, before whom the foregoing Hearing was taken, do hereby certify that the testimony that appears in the foregoing hearing was taken by me stenographically, and that I thereafter reduced it to typewriting; that said hearing is a true record of the testimony given by said witness; that I am neither counsel for, related to, nor employed by any of the parties to the action in which this hearing was taken; and further, that I am not a relative or employee of any attorney or counsel employed by the parties thereto; nor financially or otherwise interested in the outcome of the action.

JANIE G. ARRIAGA,
Notary Public

My commission expires: July 31, 2014