



Licensing Executives Society

(U.S.A. and Canada), Inc.

A Member Society of the Licensing Executives Society International

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February 28, 2009

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President Barack Obama
The White House
1600 Pennsylvania Ave., NW
Washington, DC 20500

Re: Recommendations for Promoting Innovation
from the Licensing Executives Society
USA & Canada, Inc.

Dear President Obama:

The Licensing Executives Society USA & Canada, Inc. (LES USA & Canada) congratulates you on your becoming the 44th President of the United States of America. We write to request your support for three important intellectual property initiatives.

The Licensing Executives Society USA & Canada Promotes and Supports Innovation

LES USA & Canada is an independent, non-profit, professional association devoted to the global commercialization of Intellectual Property (IP) through education, networking, standards development, and certification. It is the leading professional organization devoted to the industry of licensing, i.e., technology-based commercial transactions involving patents, trade secrets, know-how, trademarks, and copyrights. See www.lesusacanada.org.

Throughout history, human creativity has fueled innovation and improved lives. From new medical therapies to global communications networks, we reap the benefits of innovation every day. To promote innovation, the Constitution empowers Congress to grant inventors limited exclusive rights to their inventions.¹ In exchange, society requires an enabling disclosure of the invention. The bargain of disclosure for limited exclusivity fosters improvement during the exclusive term and facilitates replication upon expiry, and thus benefits both society and inventor.

¹ U.S. Constitution, Art. 1, Sect. 8, cl. 8.

Innovation is an economic engine. Where there is innovation, and a sound system for protecting it, economies are robust and the quality of life is high. But the protection of Intellectual Property is not all that is needed to ensure economic well being. Innovation must reach the marketplace, and the path is precarious. To move innovation from mind to marketplace requires complex systems of finance, law, and commerce. We must ensure that those systems promote, rather than hinder, innovation.

Three Important Initiatives Requiring Your Administration's Support

The members of LES USA & Canada believe that there are at least three Intellectual Property-related initiatives deserving your Administration's attention: (1) provide gap funding for critical technology development, (2) preserve Intellectual Property policies that promote both innovation and competition, and (3) support greater access to public and privately developed technology.

1. Provide Gap Funding For Critical Technology Development

The products of innovation often fail to reach the marketplace, and this is often a result of a gap in funding. While funding might be available in the early stages (e.g., state and federal research and business development grants), it is rarely sufficient to carry the project through to a prototype or demonstration necessary to attract risk capital, much less to full commercialization.

Small businesses follow predictable growth phases in a life cycle represented by an S-curve.² The entrepreneurial start-up with initial resources may experience growth as the market responds to the new offering, but resources diminish just as the need for skills and organization increases. The gap in funding between what can be provided by an entrepreneur's own resources and "R&D" funding sources (e.g., Department of Commerce SBIR funding), is so well-recognized as to have its own name: the Valley of Death. We recognize that not all entrepreneurs deserve such pre-commercial funding, but many do, especially those not well-connected by birth, location, or luck to investors willing to take such risks. The Valley of Death is a barrier to effective innovation, and diminishes job opportunities and our access to worthy products.

We encourage the extension of grants and assistance to improve the prospects for those making the hazardous transition from start-up to sustainable enterprise. By fostering a robust system for the support and training of entrepreneurs and start-up organizations, our country's most valuable and talented resources will be put to more effective use for the betterment of society. In this way, worthy products more efficiently get to the marketplace, or at least survive to a stage where capital from the private sector is more readily available.

Such gap-funding programs would come with oversight to monitor the investment. The grant might require the appointment of a transition board of directors or qualified mentor to assist the entrepreneur through the Valley of Death. This might be facilitated by the development of a network of executives who have been successful in technology commercialization. This would

² Churchill, N., and V. Lewis. "The Five Stages of Small Business Growth." Harvard Business Review. May-June 1983.

be especially valuable for those outside the historic hotbeds of entrepreneurship. Organizations such as SCORE® (www.score.org, a resource partner of the US Small Business Administration) provide a useful metaphor for identifying such executives, and pairing them with innovators.

2. Preserve Intellectual Property Policies That Promote Both Innovation And Competition

Properly implemented, Intellectual Property policies promote both innovation and competition. The bundle of exclusive rights conferred by a patent is a powerful economic tool that stimulates economic development, and spurs competitors toward constant improvement through innovation. Any effort to diminish those rights should be held in check.

A. Intellectual Property and Licensing Are Pro-Competitive

LES USA & Canada supports the view of the US Department of Justice (DOJ) and the Federal Trade Commission (FTC) that licensing is generally pro-competitive, and that licensing contributes to efficiency-enhancing integration of economic activity, e.g., by combining one's IP with market oriented efficiencies of another.³ The antitrust laws and the policies of the Obama Administration should be implemented to enhance rather than diminish collaboration among inventors and commercializing entities.

B. Antitrust and IP Alignment is Vital to a Healthy Economy

In today's fast paced, technology-driven world, businesses must be free to bring together individuals of wide ranging skills to create the simplest of tools. Even simple tools often require special expertise in electronics, software, medicine, chemistry, and biology. To bring together these diverse skills, businesses must have reliable information about any threat of legal sanction, and they must have some assurance that research and development will bear a reasonable return on investment.

Intellectual Property owners must be assured of the freedom to exploit their Intellectual Property in a productive and profitable manner. As such, they must have recourse to injunctive relief and the freedom to negotiate meaningful agreements providing freedom to operate or eliminating costly disputes.

The two federal agencies charged with antitrust enforcement must follow a common and consistent approach regarding licensing, collaboration, and antitrust enforcement, and ensure that those policies are instituted and implemented to promote innovation. The FTC and DOJ have demonstrated contrasting views relating to the freedom with which businesses may settle litigation under the Hatch-Waxman regime. An absence of consistency between these two agencies adds to uncertainty, and diverts resources that might otherwise go to research and development of new health care products. LES USA & Canada encourages a common and

³ US Dep't of Justice & Fed. Trade Comm'n, *Antitrust Enforcement and Intellectual Property Rights: Promoting Innovation and Competition* (2007).

consistent approach throughout the Obama Administration, and a clear statement what that approach will be.

Generally, and with few exceptions, the implementation of antitrust law and policy is on track, and consistent with a pro-competitive, pro-innovation marketplace. LES USA & Canada believes, however, that in this time of economic crisis, amidst increasing cries for greater regulation and government oversight, we must avoid turning back the clock on a well functioning antitrust regime. This aspect of America's innovation is working well. We must preserve the pro-licensing legal environment that has evolved over the last two decades.

C. The Presumption of Patent Validity Must Not be Diminished

IP and antitrust policies must be aligned if we are to promote both innovation and competition. We must ensure that well intentioned efforts to strengthen one do not impair the other. While acknowledging the importance of that balance, the FTC has recommended legislation diminishing the longstanding statutory presumption of validity of an issued patent.⁴ LES USA & Canada opposes this. The FTC seeks to justify its recommendation by noting chronic underfunding at the USPTO and associated deficiencies in resources and personnel. The FTC suggests that this results in low patent quality, and that such patents no longer merit the presumption of validity.

Rather than diminishing a valuable longstanding right that stimulates economic development, LES USA & Canada recommends a more practical and less disruptive approach.

D. USPTO Revenue Must be Devoted Exclusively to USPTO Operations

Since 1990, the USPTO has been entirely user fee funded. Yet throughout that time, much of those fees have been diverted to other federal agencies and programs. Many of the problems said to afflict our patent system could be resolved by ensuring that the USPTO gets the full benefit of those fees. In 2004, many users of the patent system agreed to substantial fee increases in exchange for a permanent end to fee diversion. This permanent provision has not yet been enacted. This is a rare instance where the users of an agency of the United States are not seeking a tax break or a handout. We recommend that those funds be retained by the USPTO and devoted to hiring and training additional qualified personnel.

The practice of devoting the entirety of USPTO fee revenue to USPTO operations should be made permanent by law. Additional resources will enable the USPTO to reduce its backlog of applications, freeing its personnel to devote more time to the careful execution of their duties and to training. With this simple solution, the USPTO will be able to maintain and improve upon its already high standard of patent quality without disrupting the longstanding presumption of validity and the many decades of associated jurisprudence.

⁴ U.S. Federal Trade Commission, "To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy" (2003).

3. Support Greater Access to Public and Private IP

The Federal Government is uniquely situated to provide greater access to IP. The Bayh Dole Act has been an enormous stimulant for innovation, entrepreneurship, and economic development. IP that would have otherwise been neglected is going into new products of great benefit to society. We ask you to ensure that Bayh Dole continues to be implemented to promote successful commercialization of innovation.

LES USA & Canada suggests that your Administration create an online community to publicize technology-specific IP. This will foster innovation and development in areas of vital need, such as "green technologies." Your Administration might require that recipients of federal funding participate in online communities where IP can be searched, and collaborations created. Those charged with moving IP out of the lab and into the market would be better equipped to do so.

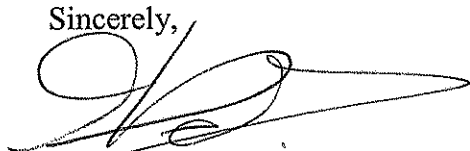
As with commercial infrastructure generally, government has an important role to play in the commercialization of innovation. As envisioned, technology-specific online communities would be similar to social networking sites and freely accessible. Individual proprietors, government labs, public and private companies, and universities could list IP for collaboration or acquisition, and those seeking to commercialize that IP could readily find it.

Failing to combine innovation and investment kills more new industries than failing to innovate. Online communities for accessing IP will make that combination easier and will bring more innovative products to market.

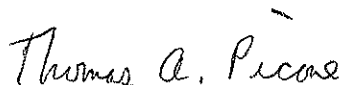
Conclusion

You have said that we must invest in and encourage innovation, or risk ceding America's historic role as the engine of growth, and progress, and discovery for the entire world. To do this, America must implement and support an effective system for protecting Intellectual Property. We are standing by to assist you, and we look forward to working with you toward a still more innovative and prosperous America.

Sincerely,



François Painchaud
President
Licensing Executives Society
USA & Canada



Thomas A. Picone, Ph.D.
Immediate Past President
Licensing Executives Society
USA & Canada