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March 28, 2016

The Honorable David Vitter  
Chairman  
Committee on Small Business &  
Entrepreneurship  
428A Russell Senate Office Bldg  
Washington, DC 20510

The Honorable Jeanne Shaheen  
Ranking Member  
Committee on Small Business &  
Entrepreneurship  
428A Russell Senate Office Bldg  
Washington, DC 20510

Dear Chairman Vitter and Ranking Member Shaheen:

Thank you for convening the Committee on Small Business and Entrepreneurship in a hearing entitled "An Examination of Changes to the U.S. Patent System & Impacts on America's Small Businesses," February 25, 2016. This is an extremely important issue for our country, our collective well-being, and the vitality of our economy. It is encouraging to see this Committee unified in support of small business, and in addressing the unintended consequences of recent and pending changes within our patent system. It is an honor and a privilege to participate in this worthy discussion.

This supplements my hearing testimony, and responds to the Questions for the Record in your letter of March 14, 2016.

## **I. Supplemental Remarks Regarding LES Standards Initiative**

During the hearing, I was pleased to address questions about the initiative of the Licensing Executives Society (LES) to create voluntary industry standards for technology licensing

and commercial transactions involving intellectual property (IP). This provides additional information on the background, goals, and plans for LES Standards.

### **A. Background**

The IP licensing community facilitates the efficient deployment of specialized skills and resources through cooperative commercial arrangements. Increasingly, commercial enterprises are disaggregated, relying on numerous alliances, joint ventures, and collaborative research and development agreements. For example, a small enterprise focused on research and development need not deviate from that focus by investing in and developing infrastructure and resources for manufacturing, sales, and distribution. Skilled innovators can thus remain true to their calling, and nonetheless be profitable and viable in a global marketplace.

Even recognizing the many benefits that IP licensing brings to our economy and our general well-being, the IP licensing community recognizes that the practice of licensing IP can and should be more efficient. The best means for achieving that efficiency is through industry self-regulation. LES is engaging diverse members of the licensing community in a concerted effort to devise standards that will make IP protection and related transactions more efficient, reliable, and transparent.

The standards that LES envisions will be analogous to standards for products and services devised by the International Organization for Standardization (ISO). LES has engaged the American National Standards Institute (ANSI) to devise open and transparent processes for the development of these standards. LES expects to be accredited by ANSI as a Standards Development Organization by the fall. As part of this accreditation process, LES leadership will undergo formal ANSI training this summer.

LES will work closely with administrative and regulatory agencies, such as the Federal Trade Commission, to ensure that these standards align with existing policies. LES will also elicit input from state attorneys general.

By following established and generally accepted practices for devising and implementing voluntary industry standards, and through broad and inclusive outreach, LES will ensure that the resulting standards will be applicable throughout the licensing ecosystem, and will represent a fair and equitable system of standards for all concerned.

## **B. Summary of the LES Standards Initiative:**

### 1. The Goals of LES Standards

- Raise the standards of business conduct and ethics in IP-oriented transactions
- Improve the practice of IP management and, by doing so, mitigate its risks
- Reduce the cost and time required to complete IP-oriented transactions
- Protect and preserve the value of IP for innovative individuals and enterprises
- Encourage investment in, and the commercial development of, innovation; and thereby promote the progress of the useful arts, enhance the well-being of society, and stimulate economic development

### 2. Areas of IP Management for Standards Development

- Patent licensing (both as to out-licensing and in-licensing, and regardless of organizational structure, *e.g.*, universities, research-oriented enterprises, fully integrated research & manufacturing companies, patent aggregators, or other entities)
- IP brokerage
- Patent valuation (toward a more reliable and transparent system for assessing IP value, *e.g.*, reasonable royalty calculation)
- IP protection in the supply chain (*e.g.*, among cooperating enterprises at different stages in the production cycle)

### 3. Additional Committees Will Address These Areas

- The role of corporate boards in managing IP and reporting on IP-related issues
- Cultivating and managing IP creation

### 4. The LES Standards Initiative Timeline

- LES Standards committees to begin drafting standards – Q1, 2016 (in process)
- LES Standards engages with the American National Standards Institute (ANSI) – Q2, 2016 (in process)
- ANSI reviews LES Standards policy and practice – Q3, 2016
- ANSI certifies LES as an ANSI Standards Development Organization – Q4, 2016
- LES Standards enters the public phase for comment and voting as to a minimum of 4 separate LES standards – Q1, 2017

The LES Standards Initiative has been underway for almost two years. In that time, LES has enlisted dozens of industry leaders who are already establishing standard-setting protocols and procedures, and drafting standards.

As part of its open, transparent, and democratic process, LES recently held leadership elections for each of its various Committees.

In implementing the foregoing plan, LES will have standards in place in the first quarter of 2017, and will be well on its way toward having a comprehensive set of standards in a variety of IP transactional areas.

The standards resulting from this Initiative will provide efficiency-enhancing tools for reputable licensing entities and practitioners. These standards will be reliable guides for management and boards to ensure that IP-related assets are properly maintained and utilized. Collectively, these standards will afford judges and tribunals with reliable, objective criteria for assessing sound business practices, and for identifying inappropriate or unethical use of IP assets.

### **C. Conclusion**

Industry self-regulation is the most efficient and least disruptive means for realizing the benefits of our patent system. It will bring greater certainty to IP-related transactions, and support collaboration to enhance the creation, development, and commercialization of new products and services. It will advance the Constitutional imperative of promoting the progress of the useful arts. By drawing upon the skills, insights, and resources of the diverse community of IP and business development experts, LES will ensure a fair and equitable system of standards that will benefit both society as a whole and the innovators who depend on that system.

Effective and reliable IP protection has been central to the vitality of the U.S. economy from its earliest days. When combined with targeted legislative efforts, such as the STRONG Patents Act (S. 632) and the Defend Trade Secrets Act (S. 1890), the LES Standards Initiative will enhance the benefits of our IP system, and deter abuse. This will avoid the uncertainty and unintended consequences of broad-based legislative reform.