

**PRIDE IN PATENT OWNERSHIP:  
THE VALUE OF KNOWING WHO OWNS A PATENT**

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**HEARING**  
BEFORE THE  
SUBCOMMITTEE ON INTELLECTUAL  
PROPERTY  
OF THE  
COMMITTEE ON THE JUDICIARY  
UNITED STATES SENATE  
ONE HUNDRED SEVENTEENTH CONGRESS

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# **PRIDE IN PATENT OWNERSHIP: THE VALUE OF KNOWING WHO OWNS A PATENT**

**TUESDAY, OCTOBER, 2021**

UNITED STATES SENATE  
SUBCOMMITTEE ON INTELLECTUAL PROPERTY  
COMMITTEE ON THE JUDICIARY  
*Washington, DC.*

The Committee met, pursuant to notice, at 2:48 p.m., in Room 226, Dirksen Senate Office Building, Hon. Patrick J. Leahy, Chairman of the Subcommittee, presiding.

Present: Senators Leahy [presiding], Coons, Hirono, Padilla, and Blackburn.

## **OPENING STATEMENT OF HON. PATRICK J. LEAHY, A U.S. SENATOR FROM THE STATE OF VERMONT**

Chair LEAHY. Sorry for the delay. As you could see by the lights in the back, we've been voting and, unlike the other body, we don't do proxy voting. That's where I was.

I also note I also talk for Senator Tillis this morning. He has, along with others in his family, suffered from a stomach flu and they told him to stay home. He said that he had no objection to going forward with this hearing.

He and I work very closely together. We both agree that our patent system would be improved by requiring more transparency in patent ownership. That's why we introduced the Pride in Patent Ownership Act. I do want to praise Senator Tillis because of his hard work and his staff's hard work in this because we know the most fundamental underpinning of our patent system is transparency.

In exchange for limited exclusive rights, inventors disclose their intention to the public benefiting society as a whole. Same fundamental principal disclosure should extend to ownership information about a patent. Today, there's no requirement that ownership information be publicly available after a patent issues.

The bill that Senator Tillis and I have put in is very simple. It's very straightforward. It requires the patent owners to record updated ownership information with the patent office when a patent changes hands. The information will be made publicly available and searchable in a data base maintained by the Patent Office. To ensure compliance, the bill provides the patent owners who fail to record ownership information in a timely manner can not obtain enhanced damages for the period in which the information was not recorded.

Our bill also requires the disclosure of government funding of patent application maintenance fees, language that came at the suggestion of one of our witnesses today, former Patent Office Director Dave Kappos who is here with us.

This is important legislation for a number of reasons. Many of us in both parties on this Subcommittee have heard horror stories about small businesses, entrepreneurs being forced to engage in costly litigation just to discover who exactly is accusing them of patent infringement and other claims. That shouldn't be the case. You shouldn't have to drain resources into expensive litigation just to discover who's suing you. And the lack of clarity about patent ownership information also brings about inefficient licensing discussions. They are important issues to solve, and, of course, they're not the only reason we should pass this bill.

We are continuing to see that the competitiveness of American companies is at stake. Today, we know that 52 percent of U.S. patents are issued not to American companies, but to foreign entities. What we don't know is what happens to patents after they issue. It's critical information. Competitors like China are making serious efforts to increase their holdings of U.S. patents. In fact, China recently directed its centrally owned enterprises to double their holdings of U.S. and other foreign patents by 2025—to double them.

Over the last 2 years, Huawei received an estimated \$1.2 to \$1.3 billion in patent licensing fees from an unknown number of patents covering an unknown array of technologies. As America positions itself to compete with China over the technologies that will drive our future such as 5G, we simply have to know how much of that intellectual property is in the hands of other countries. Greater transparency in patent ownership can play a vital role.

In the efforts of our competitors are taking to gain an economic edge over us. That's why Senator Tillis and I first proposed this legislation as an amendment to the U.S. Innovation Competition Act earlier this year. At the time, we worked with Members of this Subcommittee and Chair Durbin to reach an agreement on language that was ultimately cleared for inclusion that bill manages to package.

While that package was not adopted, I appreciate the good faith efforts of the Chair and others to work with us, find a solution that would result in greater transparency. Of course, since that time, we worked closely with stakeholders to make improvements to the bill. That resulted in the legislation we introduced last month. As we consider this legislation, I welcome input from the patent community, and from Members of this Subcommittee.

In fact, hearing from stakeholders is part of the reason I was able yesterday to release Appropriations Committee language to ensure the Patent Office will be able to access all the fees it collects after an unfortunate proposed reduction in the Patent Office's budget for the coming fiscal year.

What we want to do is arrive at an end product. We want something that might provide the Patent Office access to all the fees it collects, get strong support on both sides of the aisle, shine more light on patent ownership. I've long believed we should hear what everybody else wants to hear—say, and that's why I look forward to hearing our witnesses today. I think transparency is a core ten-

ant, not just in our patent system, in our democracy itself. I've worked with Republicans and Democrats to improve that.

I hope we can bring a little more transparency with this hearing. I know Senator Tillis, as he told me just a few minutes ago, had looked forward to being here to discuss the bill. I appreciate his and Ranking Member Grassley's willingness to say go ahead and continue even though they have to be absent. Of course, I will talk with both once we're done.

Our first witness, who I believe is going to be appearing virtually—am I correct?—will be Allon Stabinsky, the senior vice president and chief deputy general counsel of the Law and Policy Group at Intel. Mr. Stabinsky leads the Intel Legal Department, an organization of approximately 500 legal professionals.

He had been director of patent litigation, served in several deputy general counsel roles, also practiced at the law firm Latham & Watkins, received his bachelor's degree from the University of Colorado, his law degree from the University of California, Hastings College of Law. Mr. Stabinsky, if you're on, let's go ahead.

**STATEMENT OF MR. ALLON STABINSKY,  
SENIOR VICE PRESIDENT, AND CHIEF DEPUTY GENERAL  
COUNSEL, LEGAL DEPARTMENT, INTEL CORPORATION,  
SANTA CLARA, CALIFORNIA**

Mr. STABINSKY. Good afternoon. Chairman Leahy and Members of the Committee, thank you for the opportunity to address this important topic.

Right now, the American public has no way of knowing who the true owner of a patent is. This lack of transparency gives an advantage to opportunistic bad actors who are weaponizing our patent system and leaving American businesses and inventors vulnerable to attack.

The current imbalances in our patent system undermine American innovators and expose the U.S. to economic and national security risks. The Pride in Patent Ownership Act is an important step to restore balance to our patent system.

Intel routinely places in the top 10 annually of worldwide spenders in research and development and in the number of patents granted by the United States Patent Office. We're incredibly proud to be a leader in innovation and proud to let the world know that we are clearly listed as the owner of our patents. Public disclosure is the bedrock of our patent system. Just as a patent must disclose the claimed invention to the public, so too should it disclose who actually owns the patent.

Intel is the only leading-edge U.S. semiconductor company that both develops and manufactures its own technology. We have many semiconductor factories in the United States, and we're currently expanding our manufacturing footprint. We directly employ more than 52,000 people in the United States, and our broader economic impact supports over 721,000 jobs across the country, contributing over \$102 billion to the U.S. GDP in 2019.

Greater transparency in patent ownership will result in numerous benefits to the public and our innovation economy. Today, I want to focus on one of those benefits: combatting the rise of investor-funded litigation and the mass aggregation and weaponization

of patents by investment entities, often foreign entities, against American companies.

The integrated circuit was invented in the United States over 60 years ago, and for decades, America led a vibrant worldwide industry of dozens of semiconductor manufacturers. However, as the complexity and cost of semiconductor manufacturing has skyrocketed, many companies exited the industry. Today, there are only three leading-edge manufacturers left in the world. Intel is proud to be the sole leading-edge semiconductor producer left here in the United States.

However, the companies that exited the industry or ceased manufacturing possessed vast arsenals with tens of thousands of patents that they no longer need to protect their own businesses. These patents are scattering to the wind, going to the hands of well-funded professional litigants around the world who target successful domestic industries with the objective of securing outsized financial returns. It is a perverse result that the patents which were intended to promote innovation are now being used to stifle American innovation and investment.

The scale of this phenomenon is absolutely staggering, and yet the flow of patents between owners is essentially a black box due to the current lack of transparency in who actually owns the patent. Abusive patent litigation is not limited to the semiconductor industry, and it impacts companies small and large in virtually every industry.

While the U.S. legal system is intended to dispense justice, hedge funds and other players in the rapidly growing industry of litigation funding have used loopholes in our legal system to hijack our courts as a tool for securing outsized investment returns at the expense of legitimate American businesses and innovators. They're buying massive numbers of low quality, overly broad patents from failed or bankrupt companies, acquiring distressed assets for pennies on the dollar.

They use sophisticated investment diversification strategies to deploy waves of predatory demand letters and lawsuits against small companies. Then they use the proceeds from those campaigns to fund, high-dollar, get-the-company lawsuits against big companies. For these investment entities, lawsuits aren't a byproduct of their business. The lawsuits are the business.

The lack of transparency also poses a clear risk to economic and national security. Foreign competitors acting through a sovereign wealth fund or a private-sectored entity like a foreign hedge fund are making targeted investments in litigation funding, undermining critical U.S. industries like semiconductor manufacturing. Indeed, Intel has been the victim of patent lawsuits filed by mass aggregators supported by both foreign governments and by foreign investment entities who also own our competitors.

Investment-driven patent litigation has moved from being a nuisance to a menace, and we need to take action now. While the Pride in Patent Ownership Act won't solve all these problems, it will go a long way toward helping us identify the scope of the problem, and it's a necessary first step in reigning in these abuses of our legal system that hamper our economic growth and harm our national security.



Thank you again for allowing me to testify before your Committee today, and I look forward to answering any questions the Committee may have.

[The prepared statement of Mr. Stabinsky appears as a submission for the record.]

Chair LEAHY. Thank you very much. We'll go through all the witnesses, then I'll ask questions.

Ms. Abigail Rives is the Intellectual Property Counsel at Engine. It's a nonprofit focusing on research policy analysis and advocacy.

I understand you work with thousands of startups across the country. Prior to joining that, Ms. Rives was an associate at an international law firm where she represented both defendants and plaintiffs in patent and trade secret disputes. She received her law degree from Emory University School of Law, and as I know, she worked on the Federal Circuit.

Please go ahead.

**STATEMENT OF MS. ABIGAIL RIVES,  
IP COUNSEL, ENGINE, WASHINGTON, DC**

Ms. RIVES. Thank you, Chairman Leahy, and Members of the Subcommittee for inviting me to testify today. Engine is a nonprofit—

Chair LEAHY. Bring the microphone just a little bit—

Ms. RIVES. Can you hear me? Is that better?

Chair LEAHY. Oh, yes. There you go.

Ms. RIVES. Oh, thanks. Thank you for inviting me to testify today.

As you noted, Engine is a nonprofit that bridges the gap between policymakers and thousands of high-tech, high-growth startups across the country through research, policy analysis, and advocacy.

Right now, there is a lack of transparency and patent ownership that has opened doors to abuse that harms startups and small businesses. Bringing greater transparency would discourage abuse, reduce wasteful spending, equip startups with valuable information, and inform innovation policy. Your efforts to promote transparency will contribute to a patent system that works for all stakeholders, including startups across the country, and the broader public.

Starting off with one startup's experience, Ken Carter, general counsel at Bitmovin, recently told me about their first experience with a patent assertion entity. He said, "While we did our homework, the truth is that we got lucky, because by chance, we interviewed an attorney who knew the owner behind the LLC suing us. This attorney had litigated against a different LLC controlled by the same person. Being able to link the two entities gave us what we needed to respond in a way that got the lawsuit almost immediately dismissed."

Bitmovin CEO Stefan Lederer added, "If that lawsuit had come 6 months earlier or 18 months later in the middle of a fundraiser, it could have been an end-the-company event because no venture capitalist wants to invest in a company being extorted by trolls."

Public notice is central to the bargain of our patent system. Patent ownership should not be an exception. Indeed, startups stand

to benefit when others know with confidence that they own high-quality patents.

As Rachael Lamkin, an IP attorney with almost two decades of experience representing early stage tech companies and small businesses put it, “When someone starts a company, we get to see who owns it. It is a very odd thing that you have owners of a Government-granted patent right, yet no one can see who owns that.”

Likewise, when it comes to things like patent clearance, licensing, and litigation, the details of who owns what are critical. As Jean Anne Booth, CEO of UnaliWear, a med tech startup that advances safety and independence for vulnerable populations, recently told me, “The whole purpose of patents is that you are putting information out there so others can learn from it, build from it, license it. If you could actually reach out to someone with a patent and tell them, ‘Hey, I want to pull your great idea into the work I am doing,’ as opposed to waiting for them to find and sue you.”

Importantly, abusive patent litigants can do more damage to startups when they conceal information about patent ownership and control. First, hiding behind shell companies is a common tactic that enables abusive patent assertion. An example can help illustrate this.

In 2012, Project Paperless was sending letters to small businesses across the country. Based on a claim that anyone using an off-the-shelf scanner infringed, Project Paperless wrote demanding about \$1,000 per employee. But a few companies realized they were in the same boat and decided to fight back.

Websites like Stop Project Paperless popped up. That site provided details about likely end validity of the patents, the assertion campaign, and the attorneys behind it. From then on, someone who received a demand from Project Paperless was only a few clicks away from learning these were dubious accusations. Project Paperless then unloaded its patents into a newly created holding company, MPHJ. Instead of sending over 16,000 demand letters on its own letterhead, small businesses were hearing from AccNum, AdzPro, InterPar, or one of MPHJ's more than 80 newly created shell companies.

While public awareness would make it harder for this campaign to continue under the Project Paperless name, once there were dozens of new names, the same patents and accusations could carry on, even though the MPHJ patents asserted in those cases were later found invalid by the PTO.

We just heard many others engage in similar tactics today of obfuscation, including massive hedge funds that are funding patent assertion entities and creating shell companies for assertion. Anonymity is enabling abusive tactics that prioritize volume and disregard the merits. Knowing who is behind those assertions would be useful to small business in the court of public opinion and beyond.

Second, concealing patent ownership helps patent assertion entities avoid liability for vexatious behavior. For example, with fee shifting, plaintiffs litigating very weak cases in an unreasonable manner are affectively judgment-proof if they file cases through

shell companies. This tactic also helps avoid consequences under State laws enacted to address abusive assertion.

Vermont and North Carolina are among the many States that have passed such laws, but those only work if you can see who is in violation. The State of Vermont received complaints from businesses and nonprofits, which prompted it to sue MPHJ. A North Carolina packaging company is currently suing Landmark, alleging baseless assertion of infringement against it and other small companies. Simply put, allowing bad actors to hide patent ownership enables abusive conduct and frustrates the ability to deter baseless litigation.

Third, as I've detailed in my written testimony, lack of clarity around ownership creates protracted headaches around standing, which can drive litigation costs further out of reach for startups. Defending even a lower stakes assertion entity case costs about \$1.8 million, which is more than the average seed-stage startup raises to cover its entire operations for 2 years.

To sum up with another reflection from Ken Carter, this is the type of law we needed 3 years ago. This information would give us some of the tools we need to protect ourselves from low-quality patent assertions. Thank you again for inviting me to testify today. We very much appreciate your efforts to bring greater transparency to the system and are grateful you're giving tech startups a seat at the table.

[The prepared statement of Ms. Rives appears as a submission for the record.]

Chair LEAHY. Would you just repeat that \$1.8 million figure again?

Ms. RIVES. Yes. Just defending against a lower stakes assertion entity case costs \$1.8 million. Our research shows that the average seed-stage startup raises \$1.2 million to cover its entire expenses for 2 years. That's a pretty wealthy startup.

Chair LEAHY. Thank you very much. Our next witness, Professor Robin Feldman, is the Arthur J. Goldberg Distinguished Professor of Law and the Albert Abramson 1954 Distinguished Professor of Law Chair at the University of California Hastings Law, where she's also the director of the UC Hastings Center for Innovation.

The professor has published four books, more than 70 scholarly articles. I know she's testified Congress before. She had her testimony of congressional record cited by the White House and various governmental reports. She received her bachelor's degree from Stanford University, a law degree from Stanford Law School, and clerked on the Ninth Circuit. Professor, please go ahead.

**STATEMENT OF PROFESSOR ROBIN FELDMAN, ARTHUR J. GOLDBERG DISTINGUISHED PROFESSOR OF LAW, AND DIRECTOR, CENTER FOR INNOVATION, UNIVERSITY OF CALIFORNIA HASTINGS LAW, SAN FRANCISCO, CALIFORNIA**

Professor FELDMAN. Mr. Chairman, esteemed Members of the Committee, it's an honor to be here today.

Mr. Chairman, as you pointed out in the opening of this hearing, American capitalism is founded on the preset that markets should be open and free. In this spirit, and going all the way back to the First Patent Act of 1790, Congress determined that notice and dis-

closure are essential tools for encouraging innovation and making innovation markets fair, transparent, and efficient.

Patents are quintessentially a notice system. If you want to make a product, you're supposed to be able to look through the patent office files, find any patent rights that might be implicated, and then show up on the patent holder's door, hat in hand, asking for a license. You are not expected to dance in the dark. When a patent holder provides that information, it's part of the quid pro quo for receiving this extraordinarily valuable patent from the Government in the first place.

Over the last 15 years however, patent markets have begun to resemble the Wild West with no sheriff in sight. So, new types of large and complex entities have appeared on the scene, some of which hold their patents in thousands of different shell companies in order to hide ownership and avoid liability. These shell companies exist in hidden network relationships with the parent company. The problem is it makes it very difficult for those who receive a patent demand to challenge the validity of the underlying patent. If you can't figure out who controls a patent, you can't bring them into court.

In addition, many ordinary companies now place their patents in foreign subsidiaries as a tax avoidant strategy. Given the scramble to create shell companies, limited liability companies, foreign subsidiaries, basic information about patent ownership and control is getting lost in the stampede. To put it very simply, shell games in hide-and-seek rarely make for a fair and efficient marketplace.

A company doesn't have to be a massive entity to wreak havoc on unsuspecting people and small businesses. Working with just five patents, one company created more than 100 subsidiaries, sending thousands of demand letters to small businesses. When the target is a small player like that who has very little knowledge about the patent system, it can end up making multiple payments to what's essentially the same entity when it already holds a license, or it may not have needed to take a license in the first place. A small business just can't afford to spend a fortune playing detective, and the patent system shouldn't ask them to do so.

It's even more challenging for those who are trying proactively to do the right thing, for example, trying to understand if they need a license and whom to approach, they cannot rely on Patent Office information because, as my research has shown, patent holders are able to transfer ownership without full and timely disclosure.

Even when ownership information is available, that's just the tip of the iceberg because patent owners can transfer enough of the right for someone else to assert the patent without formally transferring ownership; thus, understanding the money flow can be an essential part of understanding who is actually in control. We have similar issues that come up with stock ownership, and we know how to solve them. We should be able to find analogies here as well.

Transparency is particularly appropriate here because patents are Government-conferred grants. Society should never tailor a government system in a way that encourages information asymmetry and economic distortion. Of course, processes that allow peo-

ple to take advantage of and dupe the small player are inconsistent with the fundamental goals of the American patent system.

Finally, information on the identity of who holds interest in patent rights is important from another societal perspective because, currently, we have no way of knowing the extent to which foreign entities control our intellectual capital. These are the crown jewels of our country's economic system, and it would hardly be in the Nation's interest if our intellectual capital becomes largely controlled outside the country. And yet, we have no way to know if that's the case.

In short, as Justice Brandeis once famously said, "Sunlight is the best of disinfectants." I look forward to answering your questions. Thank you.

[The prepared statement of Professor Feldman appears as a submission for the record.]

Senator LEAHY. Thank you, Professor. I think you'll find very strong support across the board and in our Committees about concerns of our patents being held overseas, no matter what the country is. We know of at least one country that's trying very, very hard to corner the market.

The next witness, David Kappos, a partner at the law firm of Cravath, Swaine & Moore, but for this—especially for this Committee, 2009, 2013, he was Undersecretary of Commerce, but Director of also the U.S. Patent and Trademark Office. I know I spent a great deal of time with him as we were writing and implementing the Leahy-Smith America Invents Act, which is the first real overhaul all of our patent laws in about 50 years. Of course, he spent, prior to his service in government, 25 years at IBM and various executive posts in the company's legal department.

Bachelor's degree from the University of California Davis, law degree from the University of California Berkley. I think most of us know him very, very well. It's good to have you here again, Director. Go ahead.

**STATEMENT OF HON. DAVID J. KAPPOS, FORMER DIRECTOR,  
UNITED STATES PATENT AND TRADEMARK OFFICE, AND  
PARTNER AT CRAVATH, SWAINE & MOORE LLP,  
NEW YORK, NEW YORK**

Mr. KAPPOS. Good afternoon, Chairman Leahy, and Members of the Subcommittee on Intellectual Property. Thank you for introducing this legislation and for offering me the opportunity to provide my views on patent ownership and funding transparency. I am testifying today solely on my own behalf.

Patent ownership transparency is a topic that I have been keenly interested in going back to when I was in corporate practice and found it frustrating to discover patents my client may have been licensed to, or may have wanted to seek a license under, but not knowing who owned them. The issue has become more acute in the intervening years. There's a new issue: State actors paying for the filing of patents that may exclude 330 million Americans from access to technology without visibility to those actors.

When I was at the USPTO, we studied patent ownership transparency, initiating outreach on actions for the Government to increase transparency. In the years since, I have participated in a

global effort to increase patent ownership transparency through a UK-based nonprofit called ORoPO. ORoPO member companies voluntarily disclosed their ownership interests in patents.

This global effort recognizes that patent ownership transparency is a problem impacting innovation worldwide, and participation by major companies in ORoPO demonstrates that it is possible without major burden for patent owners to make such disclosures.

I'm pleased to see this legislation signaling that the time has finally come for patent ownership transparency, and I'm pleased to see the U.S. leading. This is an opportunity for us to once again set the gold standard for the global IP system.

Turning to the legislation itself, it covers the essentials well. Requiring disclosure of ownership interests and patents will enable the public to understand who owns what, whether those owners are domestic or foreign, small, or large. I applaud the disclosure requirements for patent filings funded by government actors and the paired grant of authority to the USPTO enabling it to ensure we understand the extent of foreign government actor influence on our patent system.

I especially like having the USPTO determine what creates an interest requiring disclosure. Given the need to reach beyond mere ownership and address control, not necessarily cabined to ownership, the approaches used by CFIUS and others who have previously considered these issues will be beneficial.

The above being said, I'd like to now discuss some aspects of the bill that can benefit from further refinement. Crafting consequences for noncompliance is challenging. But the penalty, loss of recovery for willful infringement, doesn't seem connected to the requirement. It has the unfortunate consequence of rewarding the most egregious infringers with a windfall. If the willful infringement penalty is retained, one approach in seeking balance and fairness is to require the willful infringer to show it was actually prejudiced by the lack of disclosure before receiving the benefit of relief from willful infringement consequences.

It would also be constructive to consider positive incentives in addition to negative ones. My experience with patent holders is that the vast majority operate in good faith and respond conscientiously to positive incentives. We focused in recent years on penalties for patentees on the presumption that patentees are the main abusers of the patent system. We should move to a balanced posture, recognizing that parties on all sides of the system engage in strategic behavior and plenty of copyists take advantage of weakened patent rights to infringe valid patents.

Instead of only penalizing those who do not record, the law could also reward patentees for recording ownership. While it is appropriate for the USPTO to devise implementation details, it is important for the bill itself to provide a north star for the agency specifying—or specifics regarding the policy objectives and the purpose for the PTO's implementation. This will ensure mission clarity at the USPTO as it defines certain rights and interests in a patent triggering recordation.

Chairman Leahy, Members of the Subcommittee, the time has finally come for patent ownership transparency. If helpful, I'd be pleased to assist the Committee as it refines the bill. Thank you

again for your efforts in this legislation, and I look forward to addressing your questions.

[The prepared statement of the Mr. Kappos appears as a submission for the record.]

Chair LEAHY. Thank you all very much.

Let me begin, Ms. Rives, with you. The Pride in Patent Ownership Act has a remedy that may tend to encourage patent owners to comply without unduly punishing mistakes. When the patent owner has not registered her or his ownership, enhanced damages are not available in later litigation but only for the window of time in which the ownership was not registered.

How often—my question is how often do courts grant enhanced damages now, and is there remedy and windfall for willful infringers or a reasonable consequence of failing to give the information about a patent?

Ms. RIVES. Thank you for the question, Senator. To the first part of your question, I looked at a study recently that found that, over the last 5 years, of the thousands of court cases filed in district courts across the country, only 158 of those decisions even considered willfulness and enhanced damages. Of those, only 31 total had awarded enhanced damages. It's a very, very small number.

To the broader part of your question, I think that the proposed remedy here is a reasonable and balanced one. I think there's something very logical because what we're concerned about with willful damages is that somebody knew about the patent and knew what they were doing and did it anyway. If there's a lack of information about who owns the patent rights, it kind of melts away some of the fundamental underpinning of willfulness.

I will also note that, of course, with the Pride in Patent Ownership Act, the patentee would still be able to seek reasonable royalties and lost profits and be able to made whole. It's really just giving up that ability to push damages higher because it failed to make a public disclosure under the act.

Chair LEAHY. Thank you. Professor Feldman, do you agree with that?

Professor FELDMAN. I do. Laws are only effective if there's a way to enforce them. There must be something that has at least a little bit of a bite. If the remedy is too complex and just sets off more litigation, it may not be helpful in the long run.

Chair LEAHY. You know, I think if you buy a house, actually buy a car, in most states, you know, the requirements, you got to record the transfer of ownership, who bought it and from whom. Shouldn't it be something analogous if we—during patent transfers?

Professor FELDMAN. Absolutely. Houses, cars, shares of stock. If you transfer any of these assets, you're required to register that transfer of ownership with the Government. It's part of ensuring a fair and efficient marketplace. We should certainly have the same for the patent marketplace.

Chair LEAHY. Thank you. A question I have—a couple questions for both Mr. Stabinsky who is still on, I believe, and Mr. Kappos.

Mr. Stabinsky, you've mentioned in your testimony lack of transparency poses a risk to our national and economic security. Companies in other countries can buy U.S. patents without any way for the public to know, so, I don't mean to keep pounding on the 5G

network, but let's do so. We don't know the size of the royalties U.S. citizens will be paying to other countries to use basic American infrastructure.

What are the consequences for American competitiveness if we don't have more insight into what type of patents are being bought up by foreign entities? And I'll start with Mr. Stabinsky.

Mr. STABINSKY. Thank you for the question, Senator. The implications to American competitiveness are profound. Since you mentioned 5G, if you—there was a recent study looking at the top 5G patent holders. Amongst the top 10 patent holders, there's only one American company. The single country with the largest representation is China where four companies are there. Two out of Europe, one out of Japan. But like I said, 1 out of 10 is an American company. You have to ask the question, who are those royalties going to be paid for?

We've answered that half of the equation. They're going to be paid to foreign entities from American companies. And then we ask, well, who are those American companies? If we look in the smartphone industry, innovative companies like Apple and Google. If we talk about connected PCs, Dell, HP, Apple. We talk about connected cars increasingly happening here. We talk about Ford, General Motors.

It's not just with respect to the standards patents where we talk about 5G and cell phones. We're seeing it firsthand in semiconductors, as I explained in more detail in my witness testimony, where we're seeing large amount of semiconductor patents being aggregated by foreign investment entities and foreign government-sponsored entities. They're coming to America, and they're taxing America's last standing leading-edge manufacturer, Intel. The proceeds are going offshore, Senator. That's a profound implication for American competitiveness.

Chair LEAHY. I have other questions for the record, but I would just—one I would ask. Mr. Kappos, do you have national security concerns stemming from lack of transparency around patent ownership?

Mr. KAPPOS. Yes. Thank you, Senator. I do. They come from a number of directions. One is, again, a lack of knowledge of who owns what patents makes it difficult to get licenses to them when you need to, to know how to challenge them, to know what your risks are relative to them.

There's another component as well though that deserves mentioning, which is the possible instability of the funding source for the United States Patent and Trademark Office. One of the issues we face is with increasing numbers of filings coming from overseas funded by nation states, right? Those nation states typically will pay the cost to file a patent application, and to prosecute it, as you know, that's a subsidized cost. Normally, that's then recouped by maintenance fees that are paid in three, seven, nine years out. Those foreign governments don't pay the maintenance fee.

In effect, they're taking a subsidy from the U.S. Government. Then they're not paying back the subsidy potentially leaving the U.S. Patent and Trademark Office with tremendous funding deficits going forward. That's another—an instability of the system that's going to come about here.



Chair LEAHY. I thought you'd be the one that would be familiar with that.

Senator Blackburn has joined us, and please go ahead with your questions.

Senator BLACKBURN. Thank you, Mr. Chairman. Thank you for this hearing.

I have to tell you all, I was just on the phone—or not. I was doing a Zoom with some of our innovators in Tennessee, some of our creative community that primarily work in the music and film industry. Of course, intellectual property is a major issue with them, as you all can appreciate. Last week, I was up at a demonstration project we have at Oak Ridge, which is between University of Tennessee and the labs.

Mr. Kappos, am I saying your name right, Kappos?

Mr. KAPPOS. That's fine. Thank you, Senator.

Senator BLACKBURN. I want to be sure I say it properly.

Mr. KAPPOS. Okay. Kappos.

Senator BLACKBURN. Kappos. Okay. That helps. Thank you.

Let's talk about China. There's a lot of concern about the subsidy measures around Chinese companies. Then their directed investment into U.S. companies and a lot of concern around Huawei. Of course, Huawei's been criticized for their numerous yet low quality patent applications. How China infringes in this entire process is of tremendous concern to our innovators whether they are working on tool and die and next generation or new composites.

What I'd like for you to do is describe Huawei's involvement in the U.S. patent system, including the approximate number of patents that they hold.

Mr. KAPPOS. Thank you, Senator. That's a great question. To get to that level of detail, I would have to answer by going back and doing some research for you. I believe Huawei—

Senator BLACKBURN. That would be great.

Mr. KAPPOS. I'd be happy to do that. I could tell you directionally it's likely they own thousands of patents in the U.S.

Senator BLACKBURN. Okay.

Mr. KAPPOS. But I could follow-up.

Senator BLACKBURN. That would be helpful because as I talk, you know, we have a significant auto industry in Tennessee. You have LG and SK that are both doing big investments in our State with batteries for electric vehicles. There is a good bit of concern around this and how China is trying to push into some of this lithium battery components. When you look at Huawei and the communication systems that are involved, people are really quite concerned about this and how they will capture that data, how they're going to really end up diminishing the value of U.S. held patents because they have infringed and done their own patent application.

Let's see. Let me come—let me ask another question, the intellectual property issue. Let me go there because that is a problem for so many of our innovative industries. IP theft. IP theft and—is it Ms. Feldman? Yes.

Professor FELDMAN. Yes, it is.

Senator BLACKBURN. Let me come to you on that. Is this a major issue with the companies that you're in communication with, and what impacts do you see this having on businesses, especially busi-

nesses where they're stock and trade and their evaluation is held in intellectual property?

Professor FELDMAN. Our ideas, our innovation, our intellectual capital, these are the crown jewels of the American economy. It is extremely important that those not be siphoned off overseas by others who are not observing intellectual property rules properly. I know administrations have worked very hard to try to bring greater—greater strength to bear on those issues, but it's tremendously important for American companies and for our economic stability.

Senator BLACKBURN. Yes. Anybody else want to add something on the intellectual property theft?

Mr. KAPPOS. I could just perhaps add that the fear that I have is these technology transfers like out of Tennessee in the lithium-ion battery space, they tend to be in one direction. The foreign company comes in. It learns a lot from Americans in Tennessee. It takes that technology back overseas, and we never see it again. It creates jobs and economic prosperity overseas. So that's I think where the concern in my mind goes as a kind of a tech drain that's occurring.

Senator BLACKBURN. Yes. I think a lot of this happens through the talent program and China's talent program. They send people over, and then they take the ideas back and monetize those ideas, undercutting the innovators that actually did that work here. Tightening up who we let into our research universities is probably a big part of protecting our patents. Thank you all. Thank you, Mr. Chairman.

Chair LEAHY. Thank you, Senator. Senator Coons, you've certainly had a great deal of experience as Chair to all of this Committee. Go ahead.

Senator COONS. Thank you, Chairman Leahy, and thank you to all of our witnesses.

I do think it's an important conversation for us to be having today about ownership transparency, particularly with regards to ownership and the potential consequences of transfers in ownership in ways that disadvantage the United States. I do want us to also be mindful about not inadvertently harming U.S. inventors or innovators in the process. Making sure that we're not weakening patent rights or creating administrative pitfalls for their proper enforcement because I think we strengthen our global competitiveness, as you were just discussing with the Senator from Tennessee, when we find ways to advantage and strengthen the rights and opportunities for innovation here in the United States.

Professor Feldman, let me start with you if I might. You testified about the costs and the burdens, the balance of equities in this bill. This bill, the current proposed mechanism is to penalize patentees who fail to timely record by precluding willful infringement damages, increased damages for willful infringement. One argument that has been made is that that rewards and encourages the very worst actors in the patent system, the most willful.

Are there other ways we might provide appropriate incentives such as incentives for timely recordation?

Professor FELDMAN. As I noted before, laws aren't helpful unless they can be enforced. Both positive and negative enforcement mechanisms, I believe, are helpful in the legal context. To cite an

old adage, trust everyone, but cut the cards. We do need a way to hold people's feet to the fire.

This bill has chosen an area which, as was discussed previously, I believe is connected to the notion of willfulness. Full—if there's not full information, it is difficult to hold someone willfully accountable if they don't actually have the information. And I believe it touches on a limited area of the patent litigation flow. I do believe some areas must be there in order to hold people accountable for their behaviors.

In terms of the cost, I'd simply say that there are always costs in providing information for the market. Those costs pale in comparison to the costs of economic efficiency when we allow hide-and-seek to happen. Thank you.

Senator COONS. Director Kappos, you also made a reference about encouraging recordation. I'd be interested in your thoughts on whether or not it's appropriate for there to be some opportunity to cure where there's been a purely administrative error that has led to a timely recordation.

Mr. KAPPOS. Yes. Sure. Thank you, Senator Coons. Happy to address that.

First, if I could just momentarily correct the record on the issue of willful infringement, willful infringement in the patent law has absolutely nothing to do with the owner of the patent. What's required for willful infringement is knowledge of the patent, not the owner of the patent. We just want to get the record straight there.

In terms of other incentives, what I go to is opportunities to reduce maintenance fees and opportunities to reduce issuance fees.

Senator COONS. You mean as a positive incentive toward timely recordation of the transfer of ownership?

Mr. KAPPOS. Right. Right. Going then to your question directly, Senator Coons, there are any number of instances in which mistakes will be found. One place I see it is in M&A deals where, after a client acquires a university-owned patent or a startup company that maybe wasn't very careful about keeping track of its ownership interests, you discover in diligence problems that they had.

We should provide a mechanism in this bill to go back and fix those things in good faith because the policy justification behind the bill, which I strongly agree with, is to keep the ownership records correct at all points in time. If that's the policy goal, you have to accept there will be mistakes. Things will change. We need to build into the bill the kind of robust mechanisms that enable and incent parties, acquiring parties, the original party, whoever, to keep the records clear.

Senator COONS. My understanding is the Patent and Trademark Office reported I think it was 6 years ago that the average time for recordation was about 180 days for transactions being executed. That's about twice as long as proposed in the bill. What are your thoughts on what's an appropriate timeline for an expectation of recordation?

Mr. KAPPOS. Right. I do think it probably needs to be longer than what it currently is. I recall the PTO statistics that show that it takes a while to record. I also see in the real world of transactions and putting these records in place that, many times, changes come about as result of larger transactions that have lots of moving

parts in them. Becomes very difficult to record in a short period of time, much less if you're a small company or a startup and you don't have all the infrastructure in place.

I would agree, Senator Coons, that providing some additional time makes sense.

Senator COONS. Last question. Do you think there's sufficient clarity about what the contours are of the rights or interests that should trigger recordation? How do you think the Patent and Trademark Office might use discretion to delineate that?

Mr. KAPPOS. Yes. That's really the key question. Two things there. Number one, I feel like as I mentioned before, some kind of a north star, some kind of policy contours need to be provided in the bill. Then, the hard work is for the U.S. Patent and Trademark Office, and they're going to need to get into the details. Does a relationship with an affiliate company trigger a recording requirement? That can get really complicated, and there are millions of those kinds of relationships. What about stock ownership? What about options? What about ROFRs, right to first refusal, right to first negotiation? There are myriad interests, exclusive licenses, sole and exclusive licenses, and we need to think through every one of those so that we could provide clarity so that parties, as you say in good faith, can know what they need to record, but they can also know what they don't need to record.

Senator COONS. This will also make searching and clarity about chain of ownership and title and searching patent states more efficient in the future.

Thank you. Thank you, Mr. Chairman, for your indulgence. Thank you for your testimony to all the Members of the Committee.

Chair LEAHY. Senator Hirono.

Senator HIRONO. Thank you, Mr. Chairman.

I share the concern about the appropriate balance here because I think that we are all in favor of more transparency as to who owns the patent or even that there is a patent. I do have a concern about the fact that some could argue that we are letting the worst infringers, the willful infringers from the kind of liability that they should be exposed to.

I understand that the Patent and Trademark Office already voluntarily accepts registration. How—what percentage do you think—this is for you, Mr. Kappos. What percentage of patent holders are registering their patents voluntarily?

Mr. KAPPOS. There's a significant percent that register. While I don't have statistics in front of me, I would tell you from experience, there are already some pretty good incentives. It's well more than 50 percent. It's a large majority.

Senator Hirono, the problem that we found when we've looked at the accuracy of that recording is it's pretty spotty. There are plenty of errors. That's why I definitely agree this bill is needed. The recordal needs to be accurate at all points in time, and it needs to be 100 percent. So, 80 percent, of that's what it is, that's not quite good enough.

Senator HIRONO. The Patent Office would have to add additional resources to be able to truly support the patent owner's registration efforts.

Mr. KAPPOS. My sense is that while there would be some new tasks and some marginal new resources, the USPTO has got very sophisticated and capable IT systems. Since it's already got a recordal capability, the addition will be incremental in my view. It's got a budget of, as Senator Leahy was saying earlier, well over \$4 billion. It can certainly manage standing up a new recordal system.

Senator HIRONO. Do you recommend to your clients that they register their patents?

Mr. KAPPOS. Absolutely.

Senator HIRONO. You do that because it is actually to their benefit of the patent holders to do that.

Mr. KAPPOS. Yes. You get advantages against subsequent recordals of interest from good faith purchasers.

Senator HIRONO. There are already incentives for the registration. The kind of system that this is putting in place where through some kind of clerical error or if you're a small patent holder, in fact, some of the discussion is that it takes some time to even have your registration shown—showing up as having been registered.

Since we already have what I understand are incentives for registering, then why would we want to put in place a kind of what I would say not exactly a balanced situation if, through no fault of the patent holder, that their patent isn't registered, and somebody willfully infringes that patent, and that person cannot get enhanced damages?

Mr. KAPPOS. Right—

Senator HIRONO. Isn't that going a little overboard?

Mr. KAPPOS. Balance is certainly a challenge, and that's one of the things that I've testified on here. I do think there are ways to improve balance, including reserving the willfulness penalty for the most egregious parties who either flaunt the requirement or behave in fraud.

I do think the current recordal system is—while it's got some incentives, they're clearly not strong enough to cause all parties to record.

Senator HIRONO. My question really is that we can talk about further incentives for patent registration, but is the incentive that if you actually can show that someone willfully infringed your patent that you're not going to get the sort of enhanced damages that you are going to need to show that you're entitled to? Is that the kind of incentive that you think is appropriate?

Mr. KAPPOS. That's where I feel like the incentive isn't really very well-matched and would like to see and help with some more work to get the incentives to be more aligned.

Senator HIRONO. I tend to agree with you. I think that if somebody is willfully infringing a patent—and by the way, Mr. Kappos, isn't that kind of a high standard to show willful infringement?

Mr. KAPPOS. It is a very high standard.

Senator HIRONO. Of all the cases that are brought, I have no idea what percentage of those cases that are brought against patent infringers that's shown to be a willful infringement. Perhaps the other two people testifying, if you'd like to weigh in.

Ms. RIVES. Yes. Thank you for the question, Senator. To your last point about the statistics, as I mentioned earlier, a paper writ-

ten by Veena Tripathi in 2019 showed—counted over 5 years, 158 district court decisions of the several thousand filed between 2013 and 2018 reached a final decision on willful infringement. Of those, only about 62 found willfulness, and of those, only 31 awarded enhanced damages. It's a very small number of the overall universe of patent litigation that gets to this question.

Senator HIRONO. Except that if you're one of those people who you were able to show willful—because that could just mean that to show willfulness is a very high standard, and therefore, not very many litigants can meet that standard of proof. It could mean that.

Anyway, my point is that I think we can find maybe other kinds of incentives for registering which is something that I certainly would support more transparency in who is holding patents. Thank you, Mr. Chairman.

Chair LEAHY. Thank you very much, Senator. Senator Padilla, please.

Senator PADILLA. Thank you, Mr. Chairman, for holding this Subcommittee hearing. I'm thrilled to have such excellent California representation here today and extend a special welcome to Mr. Stabinsky and Professor Feldman.

Colleagues, California is home to a wide range of thriving industries, academic centers, and millions of consumers who rely on a patent system that encourages innovation to flourish throughout our economy. You know, on the topic of today's hearing, there appears to be a general consensus that there should be enhanced transparency about patent ownership. After all, a patent is a government grant exchanged for the disclosure of adequate information about an invention. If someone else wants to make use of that invention, it should be easy to know who to approach.

I'd first like to focus on how this issue impacts startups and smaller companies who often operate on a slim margins and have limited time and resources. It's important that we have an environment that allows them to successfully create and to compete.

Ms. Rives, I'll begin with you. In your testimony, you highlighted that smaller companies and startups are particularly vulnerable to abusive patent practices when there is an asymmetry of information about the owner of a patent, and that our current system makes it difficult for startups to deal with patent clearance, licensing, and litigation. Would enhanced reporting obligations about patent ownership improve the ability of small businesses and startups to compete against larger businesses? If so, why?

Ms. RIVES. Thank you for the question, Senator. I think the answer to your question is yes. First, I think bringing greater transparency to the system, as you noted and I noted in my testimony, would reduce abuse of the system. We know that startups that face litigation from nonpracticing entities, patent assertion entities, suffer a great deal and can sometimes have to shut down.

In addition, the ability to know who is accusing you of patent infringement can bring a great deal of value in terms of strategic response. Then, I would finally note that, in terms of competition, this greater—this greater ability to operate free from threats of abusive litigation and a reduction of that burden in the startup ecosystem, including in California, of course, would just bring greater vibrancy to smaller innovators.

Senator PADILLA. Appreciate that. But want to ask an important follow-up because I can, you know, hear folks who may disagree already. How can we be sure that additional reporting obligations aren't overly burdensome, right? That we don't go overboard by burdening small businesses and startups who seek to obtain or currently have patents?

Ms. RIVES. Yes. Thank you for the question. I think that's such an important question.

First of all, this recording your ownership with the PTO isn't a substantial burden, and I'll go into that in a bit. As I noted, the transparency can reduce a lot of burden. We hear from tech startups all the time about burdens that they do face, and this just isn't on the radar.

First, businesses have to comply with a lot of regulatory and legal requirements already. Transparency is very frequently a part of that, so they're used to participating in, for example, recording their business with the Secretary of State.

Second, what we're talking about is updating information with the PTO. If you're assigning a patent right, you've already got a contract. You've papered that up. We're talking about telling the public that you entered into that contract. I went through the PTO's online system for uploading that information this weekend. It took me less than 7 minutes. That's what we're talking about here.

Then third, there are very real barriers to entering in the patent system, and I would be very happy to talk with your office after the fact about things that we could do to lower barriers to entry in meaningful ways to reduce burdens for startups that want to obtain high-quality patents.

Senator PADILLA. Thank you. That would be helpful. In the spirit of striking the balance of my two previous questions, can you just offer a couple more examples? What kind of reporting and notice about patent ownership do you think would be most helpful to startups?

Ms. RIVES. Sure. I think first, as we've talked about already, I have confidence that the PTO, through rulemaking, would take a thoughtful and deliberate process to hearing from numerous stakeholders about what needs to be recorded. Things like assignment and actual ownership, I think, is contemplated by the bill and certainly makes sense. There are, as Mr. Kappos alluded to, some perhaps more difficult questions, and I think it will be important for the PTO to provide clear and consistent instructions to the community of patent owners, so they know what they do and do not need to record.

Then, in addition to the transparency that could be recorded with the patent office, I think we would be interested in seeing other opportunities to bring greater sunshine into patent litigation. So not just issues of patent ownership, perhaps on down the line in another vehicle thinking about litigation finance and other tools that are allowing really wealthy hedge funds to target, among others, startups.

Senator PADILLA. Okay. Thank you, Ms. Rives. Thank you, Mr. Chair. Look forward to our ongoing work.

Chair LEAHY. Thank you very much. I know with these kind of hearings, it seems like we go into the weeds. The effect on our patent holders and innovators, it all can be tremendous.

I was thinking, Mr. Kappos, you and I have talked before about your concerns about foreign countries being involved, China in particular, and paying for patent applications, fees, and costs to file U.S. patent applications. Do you want to explain that a little bit more, your concerns about foreign countries and subsidizing U.S. patent applications?

Mr. KAPPOS. Sure. Thank you, Mr. Chairman. The way I would sum it up is that each patent, of course, provides the owner with a right to exclude all others from practicing the invention for up to 20 years from the filing. Each time a foreign government takes out a patent in the U.S., our whole country is potentially impacted by it. You could imagine diagnostics that can't go into the marketplace. You can imagine products that can't go into the marketplace. Not having transparency knowledge of who owns that patent, right, a foreign government or a state-owned enterprise or a state-affiliated enterprise strikes me as being very dangerous for national security for the American people generally.

It's troubling enough when you're dealing with foreign enterprises that are hard to research, hard to figure out how they're related to one another, hard to figure out who runs them. It's even more troubling when you're talking about a huge government that is potentially able to exclude 330 million Americans from access to products and services.

Chair LEAHY. Good. Thank you very much. I might ask Ms. Rives this question. I'm trying to think of the registering and so on. Let's talk about patent owners who have to register to change as an ownership. How does that burden compare to the burdens placed on public or small businesses who have to figure out who they're negotiating with over patent licenses?

Ms. RIVES. Yes. Thank you for the question, Senator. As I just mentioned, the burden here to upload information with the patent office about who owns what patent is not very high. The burden of being accused of infringement, of course, even in a demand letter, not getting to the cost of litigation, is very substantial for startups. They can put a cloud over their ability to fundraise, their ability to attract customers. There's a lot there.

I will also note, I think as Professor Feldman alluded to, the inefficiencies in the patent assertion system and litigation system of, at the point of assertion, trying to figure out who owns what are substantial. In a recent lawsuit, Uniloc did not have standing to sue Apple, but Apple had to litigate for two full years to get to that conclusion engaging in extensive discovery. That's just something a startup couldn't afford.

Chair LEAHY. Thank you very much. I know some of the—and I listened to what some of the things that can involve those. Again, the patent system is one thing if you're a very large company even though you might get angry that you're being held up the 2-years you're talking about. They have a major law firm, I might say, and it's the cost of doing business.

I worry about so many of the small innovators, well, my State, your State, in any other one. I know Professor Feldman among oth-



ers have talked about diversity and access to the patent system, find out who's applying, also gives us a chance to encourage more, whether you have representation of women or minorities, others historically underrepresented.

I was thinking about a young inventor talking about what all she went through shortly after she graduated from Middlebury College in Vermont. In fact, I had the opportunity last week to be having lunch with the president of Middlebury and we were talking about this young woman and her innovation and all that she had to do.

You mentioned in your written testimony the information can clarify the extent to which the patent system reaches a diverse set of inventors, and that I would hope would unleash American innovation and strengthen our economy. Do you want to expand on that? Discuss the benefits of knowing who owns U.S. patents for the purpose of understanding the demographic and the geographic diversity of patent owners.

Professor FELDMAN. Thank you, Senator. Studies suggest that women and women of color in particular are seriously underrepresented in the patent system. Without additional data, we have no way of knowing the true extent to which these very valuable rights that the Government is handing out are bypassing important segments of the population, important creative, and important to this country in so many ways.

Senator, if I could for one minute just return to the question of willfulness and the remedy because that seemed to be much of the discussion in the hearing, Mr. Kappos suggested that willfulness is about the contours of the patent, which is true. The contours of the patent are very difficult to determine, even for those of us who are steeped in patent law and love patent. Very hard to figure that out. Knowing who owns the patent, being able to engage with that party, seeing how that patent is being asserted, those are all part of understanding the contours of the patent. That's why willfulness is a very reasonable way to reach trying to understand and deal with this openness problem.

Chair LEAHY. No, I appreciate that. I'm a lawyer. I've dealt with a whole lot of different things. I go into some of these same issues you just raised, and I'm fortunate that I have brilliant members of the staff who understand it probably better than I do, and you feel like sometimes you're chasing something through a maze.

I do appreciate all of you. I will keep the record open for those who wish to add other statements, including the—I keep—four witnesses. We have another online. We'll keep the record open for 10 days for anybody who wants to add further matters or Senators who want to.

Do we have anything else that—oh, and of course. I mentioned at the beginning of this I talked with Senator Tillis just as I was coming over here, and he has really been looking forward to being here but encouraged us to go forward with the hearing just the same. He does have a statement, and of course that'll be put in at the beginning of the hearing.

Thank you all very, very much. With that, we'll stay in recess.  
[Whereupon, at 4:30 p.m., the hearing was adjourned.]  
[Additional material submitted for the record follows.]

Witness List  
Hearing before the  
Senate Committee on the Judiciary  
Subcommittee on Intellectual Property

“Pride in Patent Ownership: The Value of Knowing Who Owns a Patent”

Tuesday, October 19, 2021  
Dirksen Senate Office Building Room 226  
2:30 p.m.

Mr. Allon Stabinsky  
Senior Vice President, Chief Deputy General Counsel, Legal Department  
Intel Corporation  
Santa Clara, CA

Ms. Abigail Rives  
IP Counsel  
Engine  
Washington, D.C.

Professor Robin Feldman  
Arthur J. Goldberg Distinguished Professor of Law; Director, Center for Innovation  
University of California Hastings Law  
San Francisco, CA

The Honorable David J. Kappos  
Former Director, United States Patent and Trademark Office  
Partner at Cravath, Swaine & Moore LLP  
Washington D.C.



"Pride in Patent Ownership: The Value of Knowing Who Owns a Patent"

Testimony of Abigail A. Rives, Intellectual Property Counsel,  
Engine Advocacy and Research Foundation

Senate Committee on the Judiciary  
Subcommittee on Intellectual Property

October 19, 2021 | 2:30 pm ET

Chairman Leahy, Ranking Member Tillis, members of the Subcommittee: thank you for inviting me to testify on the importance of startups and small businesses knowing who owns U.S. patents.

Engine is a non-profit technology policy, research, and advocacy organization that bridges the gap between policymakers and startups. Engine works with government and a community of thousands of high-technology, growth-oriented startups across the nation to support the development of technology entrepreneurship through economic research, policy analysis, and advocacy on local and national issues.

The U.S. patent system is rooted in public disclosure, and Engine applauds you for promoting better access to information about who owns and controls those assets. Startups stand to benefit when others know, with confidence, that they own high-quality patents. But right now, there's a troubling gap in knowledge around patent ownership which has opened doors to types of abuses that disproportionately harm startups and small businesses. Companies looking to game the patent system can conceal ownership or hide behind shell companies, which facilitates abusive assertion campaigns and insulates against liability. And—as with everything in the patent system—it is vital that Congress account for all stakeholders, including startups that only interact with the system when they are accused of infringement, end-users of technology, and the broader public. Greater transparency around patent ownership is a crucial part of addressing this public interest.

As discussed below, Engine believes transparency around patent ownership is important for at least four reasons: it would (1) reduce transaction costs and wasteful legal spending; (2) discourage abusive practices; (3) equip startups with valuable information to defend against frivolous cases, and (4) inform evidence-based, data-driven innovation policy.

**Disclosure is a pillar of the U.S. patent system.** Today's hearing marks the latest in a series of calls from government,<sup>1</sup> the private sector,<sup>2</sup> and academics for greater transparency around patent ownership.<sup>3</sup> Public notice is central to the bargain of our patent system: the government grants patents in exchange for inventors adequately disclosing inventions to the public.<sup>4</sup> In other areas of the law where similar principles apply (like copyright and trademark), there are already incentives for rightsholders to register their ownership.<sup>5</sup> Patent ownership should not be an exception. As Rachael Lamkin, an IP attorney with almost two decades of experience representing early-stage tech companies and small businesses, put it: "When someone starts a company, we get to see who owns it. A company incorporated in Delaware has to register there and we get to see things like who the members of the LLC are. It is a very odd thing that you have owners of a government granted patent right, yet no one can see who owns it."

**Startups benefit when others know that they own high-quality patents.** High-quality patents can be a vital asset for certain high-tech, high-growth startups,<sup>6</sup> and there are many ways the startup patent owner derives value from letting the public know about the patents it owns. Especially depending on the industry, many early stage companies will use patents to attract investors, enhance their reputation in the market, signal unique or superior features to customers, and/or improve prospects for exit.<sup>7</sup> Public information about patent ownership advances those goals, and startups using patents to protect themselves in the market will want the public (including, e.g., potential business partners and competitors) to know what they own.

<sup>1</sup> See, e.g., The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition, Fed. Trade Comm'n 129-31 (Mar. 2011) (discussing how parties often fail to report patent assignments to PTO, and suggesting a statutory change to require filing and public recodation of patent assignments); Nathan P. Anderson, Note, *Striking a Balance: The Pursuit of Transparent Patent Ownership*, 30 Berkeley Tech. L.J. 395 (2015) (summarizing administrative and legislative consideration); Erica S. Mintzer & Suzanne Munck, *The Joint U.S. Dept. of Justice and Fed. Trade Comm'n Workshop on Patent Assertion Entity Activities—“Follow the Money,”* 79 Antitrust L.J. 423, 432-35 (2014) (summarizing harms from insufficient or opaque information on ownership).

<sup>2</sup> See, e.g., Mintzer, *supra* note 1 (citing comments from, e.g. Microsoft, National Restaurant Association, and MetroPCS); Anthony Truppe, *Will New Register Solve the Issue of Transparency in Patent Ownership?*, Patinformatics, <https://www.patinformatics.com/blog-posts/will-new-register-solve-the-issue-of-transparency-in-patent-ownership> (last visited Oct. 15, 2021) (discussing need for transparency and private sector effort to create register).

<sup>3</sup> See, e.g., Robin Feldman, *Transparency*, 19 Va. J.L. & Tech. 271 (2014).

<sup>4</sup> See, e.g., Robert A. Matthews, Jr., 1 Annotated Patent Digest §§ 1:1, 1:2 (2021).

<sup>5</sup> Robert P. Merges et al., *Intellectual Property in the New Technological Age* 796-97 (5th ed. 2010) (describing trademark registration); *Copyright Basics*, U.S. Copyright Office 4-6 (Sept. 2021), <https://www.copyright.gov/circs/circ01.pdf> (discussing copyright registration).

<sup>6</sup> Engine has articulated similar positions in the past. E.g., *Startups & the U.S. Patent System: Prioritizing Quality and Balance to Promote Innovation*, Engine (July 2021), <https://www.engine.is/news/category/prioritizing-quality-and-balance-to-promote-innovation>.

<sup>7</sup> See, e.g., Stuart J.H. Graham et al., *High Technology Entrepreneurs and the Patent System: Results of the 2008 Berkeley Patent Survey*, 24 Berkeley Tech. L.J. 1255, 1256 (2009) (reporting on survey of entrepreneurs); Edward Graham, *#StartupsEverywhere Profile: Alex Kukulinski, Founder, ftio*, Engine (Apr. 24, 2020), <https://www.engine.is/news/startupseverywhere-lincoln-neb> ("Advice-wise, I would say do some research and talk to other founders who have gotten patents. Find out what it was like for them. Find out why they pursued a patent or why they didn't, and understand the costs involved up front. While I had some hesitations up front . . . I think it is nice to say we have some legal protections with the patents."); *What We Heard From the Founders About Startups & Patent Policy*, Engine (July 23, 2021), <https://www.engine.is/news/category/what-we-heard-from-the-founders-about-startups-and-patent-policy> (startup executive describing patented features that are "part of how we deliver on our mission").

On the other hand, a void of accurate patent ownership information increases transaction costs and burdens for startups and small businesses who need to know about the patents that pertain to their work. Every startup in the country is deemed to be on notice of over 3 million active U.S. patents,<sup>8</sup> with 350,000 more issuing each year;<sup>9</sup> that creates a vast and complex web for companies to wade through to try and avoid (alleged) infringement. When it comes to patent clearance, licensing, demand letters, and litigation, the details of who owns what are critical.<sup>10</sup> Indeed, as Jean Anne Booth, CEO of UnaliWear, an Austin-based medtech startup that advances safety and independence for vulnerable populations recently told me: “I thought you had to register your patent ownership, and frankly I do not see why you should be able to not do it. The whole purpose of patents is that you are putting information out there so others can learn from it, build from it, license it. You could actually reach out to someone with a patent and tell them ‘I want to pull in your great idea to the work I am doing,’ as opposed to waiting for them to find and sue you. I have done that before in the semiconductor space.”

***Abusive patent litigants can do more damage when they conceal information about patent ownership and control, which is particularly detrimental to startups.*** Companies have found ways to misuse the patent system: instead of trying to adjudicate legitimate claims of infringement, some try to coerce startups into settling frivolous assertions for less than the cost of litigation. And the lack of transparency around patent ownership adds layers to that problem.

First, if you are acting in good faith there is no reason to operate in the shadows. However, hiding behind shell companies enables—and has increasingly become a characteristic of—abusive patent assertion.<sup>11</sup> Indeed, patent assertion entities (PAEs) (also referred to as “patent trolls”) routinely find ways to conceal patent ownership or obscure who controls a patent assertion campaign.

A few examples can illustrate how hiding a patent’s true owner helps those gaming the system to the detriment of startups and small businesses. In 2012, Project Paperless was sending patent letters to small businesses across the country. On the theory that anyone infringed if they used an off-the-shelf scanner to email a PDF, Project Paperless was demanding about \$1,000 per employee. This sort of campaign can be profitable and low risk because there are a lot of targets, and they cannot afford to challenge the accusation in court which increases the odds they will just pay to settle and avoid costly litigation.

<sup>8</sup> Cf. Matthews, *supra* note 4, § 9:3 (discussing patent infringement as a strict liability offense, noting “[a]ccidental or innocent direct infringement is still infringement”); Erin Duffin, *Number of Patents in Force in the United States from 2004 to 2019*, Statista (Jan. 28, 2021), <https://www.statista.com/statistics/256738/number-of-patents-in-force-in-the-us> (“[i]n 2019, there were about 3.13 million patents in force in the United States”).

<sup>9</sup> U.S. Patent Activity, *Calendar Years 1790 to the Present*, U.S. Patent and Trademark Office (Oct. 17, 2021), [https://www.uspto.gov/web/offices/lac/ido/oeip/taf/h\\_counts.htm](https://www.uspto.gov/web/offices/lac/ido/oeip/taf/h_counts.htm).

<sup>10</sup> E.g., Brian T. Yeh, Cong. Research Serv., R42668, *An Overview of the “Patent Trolls” Debate* 12 (2013) (notice is necessary for the system to work efficiently, allowing “people to avoid infringement” and “negotiate permission to use others’ IP”).

<sup>11</sup> Engine has articulated similar positions in the past. E.g., Comments of Engine Advocacy, *In re* Changes to Require Identification of Attributable Owner, Docket No. PTO-P-2013-0040, at 3 (Apr. 24, 2014), [https://www.uspto.gov/sites/default/files/documents/comments\\_attributable\\_owner2014.pdf#ao-a\\_engine\\_20140424](https://www.uspto.gov/sites/default/files/documents/comments_attributable_owner2014.pdf#ao-a_engine_20140424).



But once a few companies in Atlanta realized they were in the same boat they decided to fight back and websites like “Stop Project Paperless” popped up—providing details about the assertion campaign, the lawyers behind it, potential prior art, and a call to action.<sup>12</sup> From then on, someone who received a demand letter from Project Paperless was only a few clicks away from learning these were dubious accusations. This understandably hurt Project Paperless’s prospects of extracting settlements.

Project Paperless “unloaded its patents to a newly created holding company called MPHJ Technologies,” which is a name many of us are likely familiar with by now.<sup>13</sup> And it underwent a dramatic transformation, with MPHJ establishing scores of shell companies. Instead of getting a letter from MPHJ or Project Paperless, now small businesses were hearing from AccNum, AdzPro, GosNel,<sup>14</sup> InterPar, DreOcc, BilOIt, etc.<sup>15</sup> According to the FTC, MPHJ was using 81 different subsidiaries to assert its scanner patents, and it sent approximately 16,465 letters to small businesses located in all 50 states.<sup>16</sup> While public awareness and a few small businesses pushing back would make it harder for this campaign to continue under the Project Paperless name, with dozens of new names, the same patents and accusations could carry on.

Many companies have taken pages out of that same book, including massive hedge funds and investors that are funding PAEs and creating shell companies for patent assertion today. For example, by now many of us recognize the name IP Edge, but if you were a startup that got a demand letter from Swirlate,<sup>17</sup> Nimitz Technologies,<sup>18</sup> or Keivique Technology,<sup>19</sup> you might not realize that a well-known and well-resourced PAE was targeting you. And anonymity is enabling the shift we are seeing to more PAEs with deep-pockets behind them—which has also caused a shift to more aggressive assertion tactics that prioritize volume and disregard the merits.<sup>20</sup> Indeed, Rachael Lamkin recently explained: “It used to be that plaintiff’s firms investigated the merits before filing a patent suit, and if a case was weak on the merits they wouldn’t take it. Now that hedge funds are

<sup>12</sup> *The Patents*, Stop Project Paperless (Mar. 8, 2013), <https://web.archive.org/web/20130308010738/http://stop-project-paperless.com/the-patents/>; see also, e.g., Mike Masnick, *Patent Troll Shell Companies Shake Down Small Businesses for \$1k Per Employee for Using Network Scanner*, Techdirt (Jan. 2, 2013), <https://www.techdirt.com/articles/20130102/08174721543/patent-troll-shell-companies-shake-down-small-businesses-1k-per-employee-using-network-scanner.shtml>.

<sup>13</sup> Joe Mullin, *Patent Trolls Want \$1,000—for Using Scanners*, Ars Technica (Jan. 2, 2013), <https://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/>.

<sup>14</sup> *Id.*

<sup>15</sup> *In re MPHJ Tech. Investments LLC*, Docket No. C-4513, at 4 (F.T.C. Mar. 17, 2015).

<sup>16</sup> <https://www.ftc.gov/enforcement/cases-proceedings/142-3003/mphj-technology-investments-llc-matter> (complaint).

<sup>17</sup> *Id.*

<sup>18</sup> Joe Mullin, *New Law for a Bad Patent: Patent Troll Sues Ventilator Company*, Elec. Frontier Found. (May 20, 2020), <https://www.eff.org/deeplinks/2020/05/new-law-bad-patent-patent-troll-sues-ventilator-company> (discussing connection between IP Edge and Swirlate).

<sup>19</sup> *IP Edge Launches Another Campaign in Wake of Recent Portfolio Pickup from France Brevets*, RPX Insight (Aug. 30, 2021), <https://insight.rpxcorp.com/news/67821-ip-edge-launches-another-campaign-in-wake-of-recent-portfolio-pickup-from-france-brevets> (discussing IP Edge campaign of lawsuits filed by Nimitz).

<sup>20</sup> Jonathan Stroud, *Miles to Go Before We Sleep*, Regulation 48, 51 (Spring 2018) <https://www.cato.org/sites/cato.org/files/serials/files/regulation/2018/3/regulation-v41n1-3.pdf> (listing several IP Edge entities).

<sup>21</sup> See, e.g., Abby Rives, Opinion, *Fortress Patent Fight Shows Abusive Litigation Hurts Startups*, Law360 (Mar. 25, 2020), <https://www.law360.com/articles/1256250>.

investing, there's no longer that incentive to not file bad cases." Knowing who is behind those assertions is useful, in the court of public opinion and beyond.

Second, concealing patent ownership helps PAEs avoid liability for vexatious behavior. For example, in exceptional cases courts can order patent plaintiffs to reimburse a defendant's fees.<sup>21</sup> This is, at least in part, designed to deter abusive litigation as fee shifting means a plaintiff faces some risk when it litigates a very weak case in an unreasonable manner.<sup>22</sup> But if the plaintiff is a shell company without any assets, it can effectively become judgment proof.<sup>23</sup> That frustrates (or entirely defeats) a defendant's ability to recover the money it is owed and the judiciary's ability to deter abusive litigation. Overall, this creates an environment where startups have a harder time justifying the expense of a meritorious defense, since they probably cannot recover fees, and can make PAEs effectively immune from the fee shifting designed to keep them in line.

Likewise, Vermont and North Carolina are among many states that have passed laws to combat abusive patent assertion, but those only work if you can see who is violating the law.<sup>24</sup> The State of Vermont received complaints from businesses and nonprofits targeted by MPHJ, which prompted it to file suit.<sup>25</sup> And a North Carolina packaging company is currently suing Landmark alleging baseless assertion of infringement against it and other small companies,<sup>26</sup> with amicus support from several other companies and North Carolina business associations.<sup>27</sup> That case, and a related one in Washington, come after a recent 18-month period where Landmark sent "1,892 separate patent assertion demand letters to 1,176 different target companies in 48 states"—averaging more than 25 letters per week.<sup>28</sup>

However, suits under these state laws are only possible when we have learned enough about the entities to see problematic patterns. And shielding patent ownership is valuable to a PAE looking to evade liability under these laws.

<sup>21</sup> 35 U.S.C. § 285.

<sup>22</sup> Abby Rives, *Blackbird v. Health in Motion, Attorney Fees, and What it Means for Startups*, Engine (Jan. 9, 2020), <https://www.engine.is/news/ip-recap-010920> (discussing fee award in *Blackbird v. Health in Motion*, 944 F.3d 910 (Fed. Cir. 2019)).

<sup>23</sup> See, e.g., Brian T. Yeh & Emily M. Lanza, Cong. Research Serv., R43979, *Patent Litigation Reform Legislation in the 114<sup>th</sup> Congress* 17 (2015) (quoting *Examining Recent Supreme Court Cases in the Patent Area: Hearing Before the House Judiciary Comm., Subcomm. on Courts, Intellectual Prop., and the Internet*, 114th Cong., 1st Sess. (2015) (Statement of Andrew J. Pincus, Partner, Mayer Brown LLP), at 3).

<sup>24</sup> E.g., Matthew Bultman, *State Laws Fighting Patent System's 'Dark Underbelly' Put to Test*, Bloomberg Law (June 15, 2021), <https://news.bloomberglaw.com/ip-law/state-laws-fighting-patent-systems-dark-underbelly-put-to-test>; Patent Trolling, Office of the Vermont Attorney General, <https://ago.vermont.gov/patent-trolling/> (last visited Oct. 15, 2021); Blake Brittain, *N.C. Federal Court Upholds State's Anti-Patent Troll Law*, Reuters (Aug. 20, 2021), <https://www.reuters.com/legal/transactional/nc-federal-court-upholds-states-anti-patent-troll-law-2021-08-20/>.

<sup>25</sup> Vermont, *supra* note 24 (the MPHJ case was filed under consumer protection, not patent-specific, law).

<sup>26</sup> North Carolina, *supra* note 24.

<sup>27</sup> 21-025 - *Napco, Inc. v. Landmark Technology A, LLC*, GovInfo, [https://www.govinfo.gov/app/details/USCOURTS-ncmd-1\\_21-cv-00025](https://www.govinfo.gov/app/details/USCOURTS-ncmd-1_21-cv-00025) (last visited Oct. 17, 2021) (listing amici Acushnet, Garmin Int'l, North Carolina Chamber Legal Institute, North Carolina Retail Merchants Assoc., North Carolina Tech. Assoc., Red Hat, SAS Institute, and Symmetry).

<sup>28</sup> *State of Washington v. Landmark Tech. A, LLC*, No. 21-2-06348-5 SEA, at 2 (May 13, 2021), [https://ajportal-s3bucket.s3.amazonaws.com/001\\_StampedComplaint.pdf](https://ajportal-s3bucket.s3.amazonaws.com/001_StampedComplaint.pdf) (complaint).

Third, lack of clarity in patent ownership creates protracted headaches around standing, which drives litigation costs higher and further out of reach for startups. Patent litigation is notoriously expensive; defending even a lower-stakes PAE case costs about \$1.875 million.<sup>29</sup> By contrast, the average seed-stage startup raises \$1.2 million—a sum that is expected to cover all its costs (e.g., payroll, R&D, marketing) for nearly two years.<sup>30</sup> And since the vast majority of startups do not, or do not yet, have outside funding, most have far less money than that.

Opaque patent ownership makes things worse because a startup defending a frivolous infringement claim also has to sort out whether the alleged patent owner (a) actually owns the patent and (b) has standing to sue. This would force the startup to spend tens of thousands of dollars just on discovery and litigation related to standing. Given that choice, many will understandably opt to settle a case and pay a purported patent owner who has failed to show it really has the right to sue in the first place. Indeed, Uniloc—another investment-backed PAE with a history of filing over 600 lawsuits, including many against startups and smaller businesses<sup>31</sup>—spent two years litigating its standing to sue Apple.<sup>32</sup> While Apple can afford that fight, startups cannot.

**Better data about patent ownership would curb abuse and give startups information they need.** Bringing greater transparency to the patent system would constrain the number of games that can be played. But ownership information would not only combat bad behavior, it would equip startups with powerful information about who is suing, what patents they control, and where the money comes from.

As Ken Carter, General Counsel at cloud-based, video technology startup Bitmovin, recently told me: “We got our first patent troll case in 2018. An essential element to our defense strategy was knowledge of the non-practicing entity’s full patent portfolio. While we did our homework, the truth is that we got lucky, because by chance we interviewed an attorney who knew the owner behind the LLC suing us—this attorney had litigated against a different LLC controlled by the same person. Being able to link the two entities gave us what we needed to respond in a way that got the lawsuit almost immediately dismissed—further evidence of the low-quality nature of the assertion.” Bitmovin’s CEO, Stefan Lederer, added: “If that lawsuit had come 6 months earlier or 18 months later in the middle of a fundraiser, it could have been an end-the-company event because no venture capitalist wants to invest in a company being extorted by trolls.”

That said, knowing who owns which patents will be necessary, but not sufficient, to help solve the problems of abusive litigation. On the transparency front, startups defending against frivolous

<sup>29</sup> Am. Intellectual Prop. Law Ass’n, 2019 Report of the Economic Survey 51 (2019) (reporting costs of litigation).

<sup>30</sup> *The State of the Startup Ecosystem*, Engine 17 (2021), <https://engineis.squarespace.com/s/The-State-of-the-Startup-Ecosystem.pdf>.

<sup>31</sup> See, e.g., Rives, *supra* note 20; list of cases available at Unified Patents Portal, [https://portal.unifiedpatents.com/litigation/caselist?flag=DC&flag=ITC&plaintiff=Uniloc+USA%2C+Inc.&plaintiff=Uniloc+Luxembourg+S&plaintiff=Uniloc+2017+LLC&plaintiff=Uniloc+Licensing+USA%2C+LLC&plaintiff=Uniloc+Singapore+Private%2C+Ltd.&sort=-filed\\_date](https://portal.unifiedpatents.com/litigation/caselist?flag=DC&flag=ITC&plaintiff=Uniloc+USA%2C+Inc.&plaintiff=Uniloc+Luxembourg+S&plaintiff=Uniloc+2017+LLC&plaintiff=Uniloc+Licensing+USA%2C+LLC&plaintiff=Uniloc+Singapore+Private%2C+Ltd.&sort=-filed_date) (last visited Oct. 18, 2021).

<sup>32</sup> *Uniloc USA, Inc. v. Apple, Inc.*, 508 F. Supp. 3d 550, 552 (N.D. Cal. 2020) (citing order concluding Uniloc lacked standing to sue); *Uniloc 2017 LLC v. Apple, Inc.*, 964 F.3d 1351, 1354-57 (Fed. Cir. 2020) (discussing procedural history).



assertions would also benefit from knowing things like: who has the right to assert the patent(s), who is controlling the assertion campaign, and where is the money flowing?

***Better data about U.S. patent ownership would also support evidence-based and data-driven innovation policy.*** Beyond this Subcommittee's jurisdiction, there are numerous ways Congress seeks to craft policy to promote domestic innovation. And oftentimes, policymakers and researchers end up looking at U.S. patent data as an (admittedly imperfect) proxy for innovation.<sup>33</sup> On that score, having better patent ownership data is also necessary.

For example, in setting research funding priorities, Congress sometimes looks to patent data. The Innovation Centers Acceleration Act would designate nine metropolitan areas in the U.S. as innovation centers that would receive substantial grants from the National Science Foundation, small business loans, and new tax credits.<sup>34</sup> To select those nine regions, the bill proposes looking at the number of patents issued to residents of a region—which means that for the government to decide where to invest these federal dollars, it needs to figure out who owns what patents and where they are located.

Data about foreign ownership of U.S. patents could also help answer policy-relevant questions. We know that 53 percent of the U.S. utility patents granted last year went to foreign applicants.<sup>35</sup> But without accurate ownership and assignment data, we may not know who owns or controls those patents or which U.S. patents have been assigned to foreign entities—data that could help inform innovation policy.<sup>36</sup> Likewise, as shell companies owned by foreign entities assert patents against U.S. firms,<sup>37</sup> there could be consequences for domestic companies and innovation. But to investigate that, we would need to first know who owns what.

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<sup>33</sup> See, e.g., Petra Moser, *Patents and Innovation: Evidence from Economic History*, 27 J. Econ. Perspectives 23, 23-24 (2013) (noting that “[i]n the absence of economy-wide data on the quantity of innovations, patent counts have become the standard measure of innovation,” yet patent data “may fail to capture innovation that occurs outside of the patent system”).

<sup>34</sup> Innovation Centers Acceleration Act, S. 871, 117th Cong. (2021), <https://www.congress.gov/bills/117/871/congress/senate/bill/871>.

<sup>35</sup> *Patent Counts By Origin and Type, Calendar Year 2020*, U.S. Patent and Trademark Office (Oct. 17, 2021), [https://www.uspto.gov/web/offices/ac/ido/oeip/taf/st\\_co\\_20.htm](https://www.uspto.gov/web/offices/ac/ido/oeip/taf/st_co_20.htm) (with country of patent origin determined according to first named inventor).

<sup>36</sup> See, e.g., Abby Rives, *A Brief Case Study: The Shortcomings of Counting Patents by Country to Inform Patent Eligibility in the U.S.*, Medium (Oct. 13, 2021), <https://engineadvocacyfoundation.medium.com/a-brief-case-study-in-policy-relevant-empirical-assessments-the-shortcomings-of-counting-patent-444ac13195f>.

<sup>37</sup> See, e.g., Jacob Schindler, *Korean NPE Launches Offensive After Streaming Pool's Collapse*, IAM (Nov. 12, 2019), <https://www.lexology.com/library/detail.aspx?g=8a51441a-4ce1-4cf4-a4fb-5fb922e2bc39>; *SynKloud Continues to Collect Patents, as Microsoft Files for a Declaratory Judgment Action in Delaware*, RPX Insight (Jan. 4, 2020), <https://insight.rpxcorp.com/news/59869-synkloud-continues-to-collect-patents-as-microsoft-files-for-a-declaratory-judgment-action-in-delaware>; *SynKloud Techs. Patent Held Unpatentable*, Unified Patents (Mar. 8, 2021), <https://www.unifiedpatents.com/insights/2021/3/8/synkloud-technologies-patent-held-unpatentable>; *SynKloud Techs., LLC v. Adobe, Inc.*, No. 20-1211 (U.S.) (petition for writ of certiorari, identifying IdealHub as parent of SynKloud).

To sum up with another reflection from Ken Carter, “This is the type of law we needed three years ago. If the Constitutional quid pro quo behind Article I, Section 8, Clause 8 is the grant of patent rights in exchange for the disclosure of information which would not otherwise be part of the wealth of human knowledge, it would seem axiomatic that society should know who is the counterparty to that bargain. This information would give us some of the tools we need to protect ourselves from low-quality patent assertions.”

Thank you again for inviting me to testify today about the value of knowing who owns U.S. patents. We know that the Subcommittee’s work—from bringing greater transparency to the patent system, to improving patent quality and seeking greater diversity in innovation<sup>38</sup>—will be an ongoing process. Engine is eager to contribute to that work and we hope you will continue to give startups and small businesses a seat at the table.

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<sup>38</sup> See, e.g., Press Release, Leahy And Tillis Introduce Bipartisan Bills To Boost American Innovation (Sept. 21, 2021), <https://www.leahy.senate.gov/press/leahy-and-tillis-introduce-bipartisan-bills-to-boost-american-innovation> (introducing Unleashing American Innovators Act); *Improving Access and Inclusivity in the Patent System: Unleashing America’s Economic Engine*, Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary, 117th Congress (2021); *Protecting Real Innovations by Improving Patent Quality*, Hearing Before the Subcomm. on Intellectual Property of the S. Comm. on the Judiciary, 117th Congress (2021).



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SENATE JUDICIARY SUBCOMMITTEE ON INTELLECTUAL PROPERTY  
Pride in Patent Ownership: The Value of Knowing Who Owns a Patent

October 19, 2021

Submitted by  
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American capitalism is founded on the precept that markets should be open and free.<sup>1</sup> As Louis Brandeis once stated, “sunlight is said to be the best of disinfectants.”<sup>2</sup> In this spirit, and going all the way back to the Patent Act of 1790, Congress determined that notice and disclosure are essential tools for encouraging innovation and making innovation markets fairer, more transparent, and more efficient.

Patents are quintessentially a notice system. One who wishes to make a product is supposed to be able to search through the Patent & Trademark Office’s files, identify any patent rights that might be implicated, and appear on the patent holder’s doorstep, hat in hand, asking for a license. Merely asking is no guarantee that a license will be granted. But participants in the process are not expected to dance in the dark.

In fact, notice is considered so critical to the patent system that the government itself undertakes the responsibility of disclosing to the public the boundaries of the patent it has

<sup>1</sup> Portions of this testimony are adapted from Robin Feldman, *Transparency*, 19 VIRGINIA J.L. & TECH. 271 (2014); SEE ALSO ROBIN FELDMAN, INTELLECTUAL PROPERTY WRONGS, 18 STAN. J. L. BUS. & FIN. 250 (2013); TOM EWING & ROBIN FELDMAN, GIANTS AMONG US, 2012 STAN. TECH. L. REV. 1 (2012); ROBIN FELDMAN, TOM EWING & SARA JERUSS, THE AIA 500 EXPANDED: THE EFFECTS OF PATENT MONETIZATION ENTITIES, 17 UCLA J. LAW & TECH. 16 (2013).

<sup>2</sup> Louis D. Brandeis, *What Publicity Can Do*, HARPER’S WEEKLY, Dec. 20, 1913, at 10, [https://3197d6d14b5f19f2f440-5e13d29c4c016cf96cbbfd197c579b45.ssl.cf1.rackcdn.com/collection/papers/1910/1913\\_12\\_20\\_What\\_Publicity\\_Ca.pdf](https://3197d6d14b5f19f2f440-5e13d29c4c016cf96cbbfd197c579b45.ssl.cf1.rackcdn.com/collection/papers/1910/1913_12_20_What_Publicity_Ca.pdf).

granted, and the person to whom the government granted the patent. In the interests of transparency, the federal government publicizes not only the full text of the patent and the person who received that initial grant, but also the negotiations between the patent holder and the government examiners.

Thus, when our patent system operates properly, people are on notice of the existence, scope, and ownership of a patent.<sup>3</sup> This information allows innovators to avoid infringement, negotiate permission, and maximize innovation efficiency.<sup>4</sup> And providing that information is part of the quid pro quo for receiving an extraordinarily precious patent right from the government in the first place.

Unfortunately, the modern patent system has strayed far from this ideal. Over the last fifteen years, patent markets have begun to resemble the Wild West, with no sheriff in sight. New types of large and complex legal entities have appeared on the scene, including patent aggregators—sometimes called patent trolls—who make no products. Instead, they amass patent rights for the purpose of asserting them against companies who actually do make products. Variations on the theme have developed, including patent buying clubs and product companies that create their own subsidiaries to hold or monetize their patents.<sup>5</sup>

In fact, many companies now place their patents in foreign subsidiaries as a tax avoidance strategy.<sup>6</sup> When the patent is held in a foreign subsidiary, the company does not pay US tax on the income from the patent, but rather, pays tax to the foreign government, instead, whose tax rate is lower. Given the scramble to create patent troll shell companies, limited liability companies, and tax avoidance subsidiaries, basic information about patent ownership is getting lost in the stampede.

In the American capitalist system, however, the ability to know who holds an asset and how to reach that party is an essential starting point for any market. This type of information avoids confusion, misinformation, and wasteful transaction costs. **To put it simply, shell games and hide-and-seek rarely make for a fair and efficient marketplace.**

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<sup>3</sup> BRIAN T. YEH, CONG. RESEARCH SERV., R42668, AN OVERVIEW OF THE “PATENT TROLLS” DEBATE 1 (2013) (citing JAMES BESSEN & MICHAEL J. MEURER, PATENT FAILURE (2008) and noting that “In an optimal patent regime, patent property rights are clearly defined and easily determined so the world is on notice as to their existence, scope, and ownership. This ‘notice function’ enables people to avoid infringement, negotiate permission to use others’ IP, and maximize efficiency, such as by not keeping all inventions as trade secrets or doing R&D on inventions already claimed by someone else”).

<sup>4</sup> See *id.*

<sup>5</sup> For an in-depth analysis of different types of patent trolling entities, see Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117 (2012).

<sup>6</sup> See Senator Patrick Leahy, *Let’s End the Offshoring of US Patents*, LAW360, (May 14, 2021), <https://www.law360.com/articles/1385090/let-s-end-the-offshoring-of-us-patents>.

Consider the largest patent aggregator, which has estimated holdings of at least 30,000–60,000 patents worldwide.<sup>7</sup> There are more than 1,200 subsidiaries associated with this company,<sup>8</sup> which exist in obscure network relationships with the “parent” company. These layers of shell companies can make it difficult for those who receive patent demands to challenge the validity of the underlying patents or the appropriateness of the patent demand against them. In one case, the company in a lawsuit could not even determine who was asserting the patents against it.<sup>9</sup>

One doesn’t have to be a massive patent aggregator to wreak havoc on unsuspecting companies. Working with just five patents, one company created more than 100 subsidiaries, sending thousands of demand letters to small businesses. Some of the small businesses received letters from more than one subsidiary across time. When the target is a small player with little knowledge of the patent system and patent licensing, the small business can end up making multiple payments to what is essentially the same entity when they have already paid for a license.

Moreover, licenses and settlements by patent assertion entities are typically shrouded in strict nondisclosure agreements, which prevent the parties from revealing anything about the interaction. This secrecy blocks information from filtering into the market that would allow others to understand who is asserting the patent and what territory is being claimed. These agreements result in the loss of both notice and disclosure to the entire marketplace.

To the extent it is difficult for a party accused of infringement to find information, it is even more challenging for those trying to proactively do the right thing, for example, trying to understand if they might need to enter into a licensing arrangement and whom to approach for that license. One cannot rely on publicly recorded information at the PTO, because patent holders are able to transfer ownership of their patents without full and timely disclosure to the public or even the Patent Office itself.<sup>10</sup>

Even when formal ownership is properly recorded, such information represents the tip of the iceberg. Patent owners can transfer rights sufficient to assert a patent but short of formally transferring ownership. For example, a patent holder could grant an exclusive license to an

<sup>7</sup> Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 25–35 (2012) (painstakingly tracing 1,200 shell companies related to the aggregator Intellectual Ventures in). See also, Nathan Vardi, *After 10 Years, Nathan Myhrvold's \$3 Billion Of Private Equity Funds Show Big Losses*, FORBES (June 1, 2018) (estimating Intellectual Ventures’ holdings as up to 95,000 patents in 2018).

<sup>8</sup> See *id.*

<sup>9</sup> *Id.* at 39–40 (citing No. 11-CV-0671 (N.D. Cal. filed Feb. 14, 2011)) (in which the company filed a declaratory judgment action challenging some of the patents asserted against it, but the judge dismissed some of the parties named on the grounds that the patent owners were really seven other shell companies associated with the aggregator, rather than the ones the company had named).

<sup>10</sup> See, e.g., *id.* (tracing the thousands of shell companies established by a large patent aggregator and noting examples in which patent holders announced a sale to the aggregator but there was no change in ownership recorded at the PTO for many years).

entity. If worded properly, that license would give the entity not only the right to develop a product from the patent, but also the right to assert the patent against others.

Given the potential to separate and distribute patent rights in various configurations, identifying who is the "owner" of the right is only the beginning. In light of the convoluted structures involved, understanding the money flow also can be an essential part of understanding who is actually in control.

The ability to know who holds an asset or right, and how to reach that party is an essential starting point in any market, particularly patent markets. Making this type of information quickly and publicly available can avoid the confusion and misinformation that can result in wasteful transaction costs. **To put it simply, shell games and hide-and-seek rarely make for an efficiently functioning market.**

It is certainly true that secrecy in business transactions can have tremendous value for those who hold information that others in the market do not have. That, however, is deeply at odds with the foundations of the patent system, as well as society's economic interests. In a competitive environment, economists generally believe that information is a positive attribute and that information asymmetries lead to market inefficiencies and distortions.

This is particularly appropriate in the case of patents, which are government-conferred grants. One would be hard pressed to argue that society should tailor a system of government grants in a way that encourages information asymmetry and economic distortion. Most important, processes that take advantage of and dupe the small player are hardly consistent with the goals of the American patent system.<sup>11</sup> In short, from a societal perspective, shell companies and lack of disclosure don't add value, and they actually cause confusion and harm.

Information on the various parties who have interests in the patent has implications for the judicial system as well. Properly identifying those with relevant interests can avoid duplicative filings and enhance the potential for an efficient settlement process. In this context, courts benefit from being able to identify all the relevant parties. Such information also provides the appropriate framework for holding those with pecuniary interests responsible for damages that may have been imposed in the pursuit of their financial interests.

Some may argue that it will be a burden for patent holders to provide information about ownership and that disputes about the adequacy of information provided will, inevitably, arise. Any costs, however, are likely to pale in comparison to the cost currently being imposed on the marketplace. Shadow boxing is rarely an efficient market sport.

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<sup>11</sup> Fed. Trade Comm'n & U.S. Dep't of Just., Patent Assertion Entity Activities Workshop Transcript 65 (Dec. 10, 2012), [http://www.ftc.gov/sites/default/files/documents/public\\_events/Patent%20Assertion%20Entity%20Activities%20Workshop%20/pae\\_transcript.pdf](http://www.ftc.gov/sites/default/files/documents/public_events/Patent%20Assertion%20Entity%20Activities%20Workshop%20/pae_transcript.pdf).

Information on the identity of those who hold interests in patents is important from a different societal perspective, as well. As the U.S. patent system currently stands, we have no way of knowing the extent to which foreign interests may control our intellectual capital. These are the crown jewels of our country's economic system, and it would hardly be in the nation's interests if our precious intellectual capital became largely controlled outside the country. And yet, we have no way to know if that is the case.

Of similar concern, studies have suggested that women, in general, and women of color, in particular, are seriously underrepresented in the patent system. Without complete data, we have no idea of the extent to which the government's system of handing out valuable patent rights may be bypassing important segments of our population.

By ensuring the timely publication of all information about patent ownership and interests, the Pride in Patent Ownership Act would help provide information that is essential for all players in the field. I am honored to have the opportunity to discuss the importance of passing this legislation.

WRITTEN TESTIMONY  
**DAVID J. KAPPOS**  
**FORMER UNDERSECRETARY FOR INTELLECTUAL PROPERTY AND  
DIRECTOR,  
UNITED STATES PATENT AND TRADEMARK OFFICE**  
**PARTNER,  
CRAVATH, SWAINE & MOORE LLP**  
BEFORE THE  
**U.S. SENATE  
SUBCOMMITTEE ON INTELLECTUAL PROPERTY**  
**October 19, 2021**

Good afternoon Chairman Leahy, Ranking Member Tillis, members of the Subcommittee on Intellectual Property. Thank you for introducing this legislation and offering me an opportunity to provide my views on patent ownership and funding transparency. I am testifying today solely on my own behalf.

Patent ownership transparency is a topic I have been keenly interested in for 20 years, going back to when I was in corporate practice and found it frustrating to discover a patent that my client may have been licensed to, or one it may have wanted to seek a license under, but not being able to tell who owned the patent. The issue has become more acute in the intervening decades with many more patents being in force, many more owned by hard-to-trace overseas entities, and greater interconnectedness between technologies. The net effect is that patent ownership transparency is more important than ever. Running in parallel with these forces is a new issue—the emergence of state actors



filing or paying for the filing of patents that may exclude 330 million Americans from access to products or services, without visibility to the actors behind these patents.

When I was in the government we also focused on this issue at the USPTO, initiating outreach and seeking comments on actions the government might take to increase transparency around patent ownership.

And in the years since, I have participated in a global effort to increase patent ownership transparency, through a U.K.-based non-profit called ORoPO,<sup>1</sup> which provides a platform to enable transparent disclosure of patent ownership. A number of U.S. and overseas companies are members, voluntarily disclosing their ownership interests in the patents to which they own rights. This global effort recognizes that patent ownership transparency is a problem that extends well beyond U.S. borders, impacting innovation worldwide. And the voluntary participation of major companies in ORoPO demonstrates that it *is* possible, without major burden, for patent owners to disclose their ownership interests in patents.

With all that focus over two decades, I am pleased to see this legislation, signaling that the time has finally come for patent ownership transparency. And I am pleased to see the U.S. leading. This is an opportunity for us to once again set the gold standard for the global IP system, inviting other countries to follow.

Turning to the legislation itself, it covers the essentials well.

Requiring the disclosure of ownership interests in patents will provide necessary transparency to enable the public to understand who owns rights in U.S. patents, whether

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<sup>1</sup> Open Register of Patent Ownership (ORoPO), <http://oropo.net>.

those owners are domestic or foreign, small or large. This enables parties who need licenses to acquire them, or make informed decisions to avoid infringement.

I applaud the disclosure requirements for patent filings funded by government actors and the paired grant of authority to the USPTO. This bill gives the USPTO explicit authority over patentees that do not disclose a foreign government's funding of their applications or maintenance fees or payment of attorney fees to prosecute their patents. Equipping the USPTO with this authority enables the Agency to ensure we can better understand the extent of foreign government actor influence in our patent system on an ongoing basis.

I also appreciate the inclusion of error notification and correction procedures. An administrative error in a patent should not mark the difference between an inventor recovering damages against a willful infringer versus not. While I'll mention opportunities for further safeguards in a moment, this facet of the legislation provides elements of a process to reduce the likelihood of unfair outcomes to good faith patentees.

I especially like having the USPTO work through the details of determining exactly what creates an interest requiring disclosure. Given the need to get beyond mere "ownership" interests and address "control" that is not necessarily cabined to ownership, the deliberations and approaches used by CFIUS and others who have previously considered these issues can be of tremendous benefit.

I also see it as helpful that the register be made available through a digitally searchable database. Patent transparency is only meaningful to the American public and the global innovation community if it is practically accessible, and a publicly-searchable database ensures that insiders will not be the only ones to benefit from this bill.

I recognize the concerns of independent inventors and small businesses regarding new compliance burdens that can lead to “foot faults” costing them important rights. I think any hard edges in the new law in this regard can be smoothed by providing for fulsome USPTO notifications to small entities, ensuring they have more-than-adequate notice and opportunity to comply with the new ownership disclosure requirement. The USPTO can, and I’m sure will, also put in place automated and ease-of-use measures to make it very straightforward and simple for patentees of all sizes, but especially small entities, to meet the new requirements. And the micro-entity/small-entity status designations in the U.S. patent system already provide good bases for outreach and ongoing support for patentees registered in those categories.

With all the above being said, I’d now like to discuss some aspects of the bill that can benefit from further refinement.

I realize crafting consequences for non-compliance is challenging, but the penalty—loss of recovery for willful infringement—doesn’t feel connected to the recordation requirement. It has the unfortunate consequence of rewarding the most egregious infringers with a windfall. If the willful infringement penalty is retained, one approach to consider in seeking balance and fairness is a requirement for the willful infringer to show that it was prejudiced by the lack of disclosure of ownership, before receiving the benefit of relief from willful infringement consequences.

I also think it would be constructive to consider positive incentives in addition to negative ones. My experience with patent holders is that the vast majority operate in good faith, and respond very conscientiously to positive incentives. We have focused in recent years on penalties for patentees, on the presumption that patentees are the main

abusers of the patent system. We would be wise to move to a more balanced posture, recognizing that parties on all sides of the system engage in strategic behavior, and there are plenty of copyists who are taking advantage of weakened patent rights to infringe valid patents. It would be good to have this bill send a balanced message. Thus, instead of only penalizing those who do not record perfectly with the loss of enhanced damages, the law could also reward patentees when they record ownership promptly and accurately. One way this could be accomplished is through the use of safe harbors for parties acting in good faith. Another option could be to reduce issuance and maintenance fees for patentees who record properly. Penalties could still exist, but they could be reserved for bad faith actors, such as patentees who act fraudulently in the recording process or flagrantly ignore the requirement.

While it is appropriate for the USPTO to work out the implementation details, it is important for the bill itself to provide a North Star for the Agency, by including some specifics regarding the policy objective and the purpose to be achieved by the USPTO's implementation work. This will ensure clarity of mission as the USPTO works at defining what are "certain rights or interests in a patent" that trigger recordation.

The legislation should explicitly charge the USPTO with recognizing that there are many interests affecting patents, which can be complicated to handle in a recordal regime. For instance, equitable interests such as security liens that are commonly taken out when a company secures debt-based financing—should these interests trigger a recordal requirement? I would think not, and this should be made clear. As another example, patents transferred by universities and small businesses frequently have incomplete or no information regarding ownership interests, and that needs to be

accounted for to avoid unnecessarily clouding the value of such patents. Sometimes the acquiror of such patents or the businesses owning them will find the missing information through diligence, and account needs to be taken for opportunities to fix prior mistakes in these situations. Other interests such as options, springing interests, rights of first offer, rights of first refusal, and non-ownership control through board seats, preferred voting rights, and the like need to be considered. Inter-company agreements commonly used to allocate rights and obligations among related companies also need to be accounted for. Just as important as providing examples of interests that do need to be recorded, the USPTO should be charged with enumerating interests that do not need to be recorded. With so many nuances as to what it means to own or control a patent, the bill should provide guidance to the USPTO to ensure its implementation minimizes requirements to make fine legal judgments about what rights to record. Otherwise, we risk the unintended consequence of requiring a legal opinion for the ownership recordal of every patent.

Returning to the error correction component of the bill, the difficulty in defining ownership means that the USPTO will not be able to spot many “errors” without having deep insight into the nuts and bolts of an entity *e.g.*, stock ownership, classes of stock, voting rights, operational control agreements and other parameters that speak to who is actually “in charge” of a patent that is issued or assigned. Thus, it is worth considering, at least during an initial phase-in period, having the USPTO provide an opportunity for patent owners to explain the facts regarding their unique situations and receive guidance as to who they should report as having an ownership interest in a patent. When a patent owner follows the USPTO’s guidance as to how to record the interest, the patent owner

could have access to a safe harbor in case of later challenge. At a minimum, the USPTO should provide a substantial set of examples and recommendations that represent the myriad of different arrangements relevant to patent ownership, and continue to update these examples as on-the-ground experiences dictate. Care needs to be taken so that this recording requirement does not become a technical trap that trips up good faith inventors and effectively diminishes their patent rights.

If the current penalty structure is kept, the error correction and notification process can be expanded to afford opportunities for patentees to cure good faith errors by correcting such erroneous filings, even if they are doing so well beyond the 90-day recordal period. A good faith patentee who makes an honest mistake in recordal, then corrects it promptly after learning of the mistake, should not be foreclosed from remedies against willful infringement. This is good policy, aligning with the purpose of the legislation—to incent accurate recording of patent ownership information.

Finally, I believe the 90-day timeline may be too short in many cases. In the context of M&A and complex deals, assignments are often one piece of a many-part transaction that frequently takes longer than 90 days to close. Small companies that lack the resources to ensure compliance within such a short timeframe when engaging in complex licensing arrangements may also be vulnerable. Consideration should be given to lengthening the recordal time period.

Chairman Leahy, Ranking Member Tillis, and members of the Subcommittee, I have for two decades advocated that patent ownership transparency is good policy. Its time has come, and this legislation can accomplish that policy. To the extent you find it helpful, I would be pleased to assist the Subcommittee as it refines the bill. Thank you

again for your efforts on this legislation to bring world-leading transparency to ownership of U.S. patents. I look forward to addressing your questions.



Senate Committee on the Judiciary  
Subcommittee on Intellectual Property

Hearing on "Pride in Patent Ownership: The Value of Knowing Who Owns a Patent"

Written Testimony of Allon Stabinsky  
Senior Vice President  
Chief Deputy General Counsel, Legal Department  
Intel Corporation

October 19, 2021



Chairman Leahy, Ranking Member Tillis and distinguished members of the Intellectual Property Subcommittee, thank you for the opportunity to address the important topic of transparency in patent ownership. Right now, the American public has no way of knowing who the true owner of a patent is. This lack of transparency gives an advantage to bad actors and opportunists who weaponize patents, and it leaves American small businesses, start-ups, and keystone manufacturers vulnerable to attack. The current imbalances in the patent system needlessly undermine American innovators and expose the United States to economic and national security risks. “The Pride in Patent Ownership Act” is an important step to restore balance to our patent system.

Intel routinely places in the top ten annually of worldwide spenders in research & development and in the number of patents granted by the U.S. Patent and Trademark Office (PTO). We’re incredibly proud of our innovation leadership and that Intel Corporation is clearly listed as the owner of these patents. This transparency is a key part of the bargain inventors make with the public. In order to secure the right to exclude others from making, selling or using inventions for 20 years, the inventions must be disclosed to the public. We believe that public disclosure must also make it clear who has an ownership interest in these patents.

Intel is the only leading-edge U.S. semiconductor company that both develops and manufactures its own technology. From hardware and software products to networking, telecommunications, cloud computing, artificial intelligence, and autonomous driving, Intel’s semiconductors are at the heart of today’s digital economy.

We have many semiconductor factories in the United States, and we’re currently expanding our manufacturing footprint. These investments will enable us to continue pushing the U.S. semiconductor industry forward, manufacturing chips for other U.S. companies, and supporting key U.S. government initiatives. We directly employ more than 52,000 people in the U.S. and our broader economic impact supports over 721,000 jobs across the country, contributing over \$102 billion to the U.S. GDP in 2019.

Greater transparency in patent ownership will result in numerous benefits to the public and our innovation economy. Today, I want to focus on one of those benefits: combatting the rise of investor-funded litigation and the mass aggregation and weaponization of patents by investment entities, often foreign entities, against American companies.

The integrated circuit was invented in the U.S. over 60 years ago and for decades America led a vibrant worldwide industry of dozens of semiconductor manufacturers. However, as the complexity and cost of semiconductor manufacturing skyrocketed, many companies exited the industry and today there are only three leading-edge manufacturers left in the world. Intel is proud to be the sole leading-edge semiconductor producer left in the United States. The companies that exited the industry or ceased manufacturing possessed vast arsenals of tens of thousands of patents that they no longer need to protect their own businesses. These patents are scattering to the wind, going into the hands of well-funded professional litigants around the world who target successful domestic industries with the objective of securing outsized financial returns. It is a perverse result that the patents which were

intended to promote innovation are being used to stifle American innovation and investment. The scale of this phenomenon is staggering, and it has evolved from being a nuisance to a menace to U.S. economic and national security. Yet, the flow of patents between owners is essentially a black box due to the current lack of transparency in who actually owns a patent. These “secret” patent monopolies serve no legitimate purpose and are a real public policy problem.

Abusive patent litigation is not limited to the semiconductor industry, and it impacts companies small and large in virtually every industry. While the U.S. legal system is intended to dispense justice, hedge funds and other players in the rapidly growing industry of litigation funding, have used loopholes in our legal system to hijack our courts as a tool for securing a large return on investment (“ROI”) at the expense of legitimate American businesses and innovators. For these hedge funds and other financial backers of litigation funding, lawsuits aren’t a byproduct of their business; the lawsuits are the business.

Hedge funds and other deep-pocketed entities are increasingly funding third-party patent litigation in the hopes of seeing eye-popping returns on their “litigation investments”. They are buying massive numbers of low-quality, overly-broad patents from failed or bankrupt companies, acquiring distressed assets for pennies on the dollar. They don’t use these patents to actually make or sell anything; rather, they only use them to extract payments from companies large and small that create new inventions, manufacture products, and add real value to the nation’s economy and national security.

To make matters worse, these hedge funds and other funding entities behind these shell companies are wolves in sheep’s clothing. They frequently see to it that cases are presented to judges and juries under the guise of the “small inventor”, but the reality is it’s the hedge fund managers who actually control the litigation since they control the purse strings.

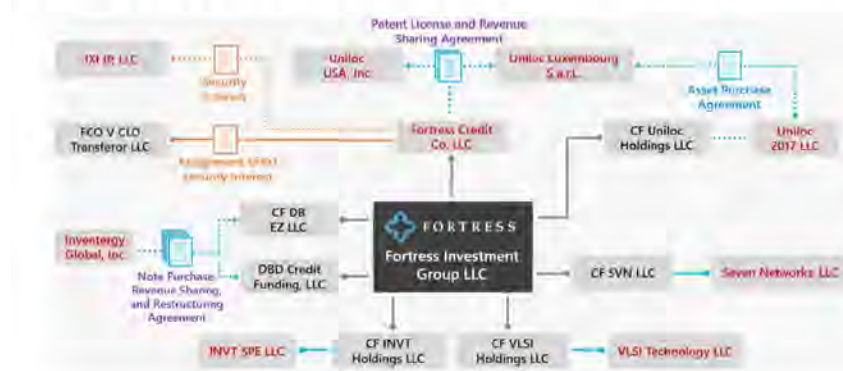
For hundreds of years, this type of privateering behavior, known as Champerty, was expressly prohibited at Common Law, and several U.S. states still prohibit it on public policy grounds. The ethical risks are clear – it’s hard to see how counsel can purport to represent the “best interests” of the litigant, when the real parties in interest are the hedge funds paying the bills. Further, these funds expect astronomical returns on investment, frequently over 20% ROI, which in practice rules out reasonable settlements and relies on taking larger risks in the hope of a proverbial “jackpot” in a jury trial. Transparency in patent ownership and interest will make clear to the juries who the real parties in interest are and help bring the hedge funds out of the shadows.

Firms such as Burford Capital, Curiam Capital, Fortress Investment Group, Longford Capital Management LP, Omni Bridgeway, Parabellum Capital, Starboard Value LP, GLS Capital, and others, including some that focus exclusively on litigation finance, now routinely provide financial backing for and/or orchestrate patent litigations.<sup>1</sup>

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<sup>1</sup> See, e.g., Chambers and Partners, *Litigation Funding in USA – Nationwide: Intellectual Property*, available at <https://chambers.com/legal-rankings/litigation-funding-intellectual-property-usa-nationwide-58:3213:12788:1> (last visited Oct. 14, 2021); *Acacia Research*

One central player in this emerging investment strategy is Fortress Investment Group (“Fortress”)—owned by the Japanese investment conglomerate Softbank—which engages in mass patent aggregation and litigation and reportedly has \$53.9 billion under management.<sup>2</sup> Softbank also owns Arm Limited, which is a designer of microprocessor intellectual property and one of Intel’s main competitors. Fortress has formed a team devoted to IP investment that has reportedly directed \$900 million to 40 IP-related investments.<sup>3</sup> As with other assertion campaigns supported by investment and finance firms, the resulting lawsuits never involve Softbank or Fortress themselves as a plaintiff. Instead, Softbank and Fortress try to conceal their activities with a web of shell companies and secret agreements. Patents are asserted via complex corporate structures that obscure financial interests in the patents and litigations. For instance, the below diagram illustrates the complex web of agreements and entities involved in some of the Fortress-backed campaigns.<sup>4</sup>



*Announces Strategic Partnership with Starboard Value*, Nov. 18, 2019, available at [https://acaciaresearch.com/prviewer/release\\_only/id/4152669](https://acaciaresearch.com/prviewer/release_only/id/4152669) (last visited Oct. 14, 2021); Angela Morris, *Patent litigation finance moves into the mainstream, but splits opinion as it does so*, IAM-Media, Sept. 27, 2021, available at <https://www.iam-media.com/finance/patent-litigation-finance-moves-the-mainstream-splits-opinion-it-does-so> (last visited Oct. 14, 2021).

<sup>2</sup> Fortress Investment Group LLC, History, available at <https://www.fortress.com/about#history> (last visited Oct. 14, 2021).

<sup>3</sup> Richard Lloyd, *Fortress's latest patent fund could top \$900 million*, IAM-Media, Apr. 9, 2021, available at <https://www.iam-media.com/finance/fortress-latest-patent-fund-could-top-900-million> (last visited Oct. 14, 2021).

<sup>4</sup> First Amended Complaint (Public Version) ¶ 124, *Intel Corp. v. Fortress Investment Group LLC*, No. 3:19-cv-07651-EMC (N.D. Cal. Mar. 8, 2021), Dkt. 192.

The patents utilized include forgotten older patents that had never been used in a commercial product, had never been used in any way by the original patentee, and had never been licensed to an operating company.

Fortress's campaigns have included, among others, assertions made by:

- **Seven Networks, LLC (“Seven Networks”)**: Formerly an investor in Seven Networks Inc., Fortress gained control of the company in 2015 after it unsuccessfully attempted to monetize its patent portfolio.<sup>5</sup> Fortress converted the company to an LLC in July 2015.<sup>6</sup> Seven Networks has since filed 10 patent infringement cases against companies like Apple Inc., Google LLC, LG Electronics Inc., Motorola Mobility LLC, Samsung Electronics America Inc., and ZTE (USA) Inc.
- **Uniloc**: Fortress affiliates entered into funding agreements with prolific patent litigants Uniloc USA and Uniloc Luxembourg, S.a.r.l. starting in 2014.<sup>7</sup> Fortress formed Uniloc 2017 LLC in February 2017 to take possession of patents previously held by the Uniloc entities Fortress had financed.<sup>8</sup> Since its formation, Uniloc 2017 LLC has pursued more than 200 patent litigations against companies like Apple Inc., AT&T Service, Inc., Google LLC, HTC America Inc., LG Electronics USA Inc., Microsoft Corporation, Motorola Mobility, LLC, Netflix, Inc., Roku, Inc., Samsung Electronics America Inc., Verizon Communications Inc., and ZTE Inc.
- **INVT SPE LLC (“INVT”)**: Fortress or its affiliates entered into funding agreements with Inventergy Global, Inc. (holder of patents acquired from Huawei, Panasonic and Nokia) beginning in 2014.<sup>9</sup> INVT was formed in April 2017 and assigned portions of Inventergy Global, Inc.'s portfolio the same day.<sup>10</sup> INVT went on to file patent infringement suits against Apple Inc., HTC Corporation, and ZTE Corporation in federal district court and before the U.S. International Trade Commission.
- **VLSI Technology LLC (“VLSI”)**: Fortress formed VLSI in June 2016.<sup>11</sup> VLSI then began acquiring patents from Dutch company NXP BV and its U.S. affiliate, NXP USA, Inc.<sup>12</sup> It has gone on to sue Intel in five patent infringement suits in U.S. federal district court and in lawsuits in China.

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<sup>5</sup> Second Amended Complaint (Public Version) ¶¶ 95-96, *Intel Corp. v. Fortress Investment Group LLC*, No. 3:19-cv-07651-EMC (N.D. Cal. Mar. 8, 2021), Dkt. 236.

<sup>6</sup> *Id.*

<sup>7</sup> *Id.* at ¶¶ 55-58.

<sup>8</sup> *Id.* at ¶¶ 59-60.

<sup>9</sup> *Id.* at ¶¶ 80-89.

<sup>10</sup> *Id.* at ¶ 90.

<sup>11</sup> *Id.* at ¶ 75.

<sup>12</sup> *See, e.g., id.* at ¶¶ 78, 254, 258-261, 289, 313.

- **DivX LLC:** In 2018, a Fortress affiliate acquired patents formerly held by the video codecs company DivX Inc.<sup>13</sup> The new patent holder, DivX LLC, subsequently filed eight patent infringement actions against companies like, Hulu, LLC, Netflix, Inc., Realtek Semiconductor Corp., Samsung Electronics Co., Ltd., and TCL Technology Group.
- **VoiceAge EVS LLC:** Also in 2018, Fortress investment funds and VoiceAge Corporation—a contributor to voice and audio standard codecs—entered into an agreement by which VoiceAge Corporation assigned a patent portfolio to newly formed company (and Fortress affiliate) VoiceAge EVS, LLC.<sup>14</sup> VoiceAge EVS, LLC has gone on to file five patent infringement lawsuits against Apple Inc., HMD Global Oy, Huizhou TCL Mobile Communication, Lenovo Holding Co., Inc., and Xiaomi Corp.
- **Labrador Diagnostics LLC (“Labrador”):** Using patents formerly owned by the disgraced company Therasanos, Labrador filed suit against diagnostics companies BioFire Diagnostics, LLC and bioMerieux S.A. in March 2020,<sup>15</sup> but it abandoned the lawsuit in the face of criticism when it came to light they were targeting a diagnostic platform used to develop COVID-19 tests.<sup>16</sup>

Connections between patent assertion entities such as these and Fortress (or other investment firms like Ireland’s Magnetar Capital, which is perversely using American patents in the International Trade Commission to try and block Intel products from entering the United States<sup>17</sup>) are sometimes publicly announced. More often, however, the connections can only be gleaned from researching the signatories to or addresses noted in corporate formation documents and patent assignment records, or they come to light during the discovery process in a litigation. Sometimes, sources of financial support

<sup>13</sup> *NeuLion Closes Transaction With An Affiliate of Fortress Investment Group*, Globe Newswire, Feb. 12, 2018, available at <https://www.globenewswire.com/news-release/2018/02/12/1339475/0/en/NeuLion-Closes-Transaction-With-An-Affiliate-of-Fortress-Investment-Group.html> (last visited Oct. 14, 2021).

<sup>14</sup> *VoiceAge Corporation Announces Strategic Transaction with Affiliates of Fortress Investment Group to License VoiceAge’s EVS Patent Portfolio*, PR Newswire, Dec. 10, 2018, available at <https://www.prnewswire.com/news-releases/voiceage-corporation-announces-strategic-transaction-with-affiliates-of-fortress-investment-group-to-license-voiceages-evs-patent-portfolio-300762874.html> (last visited Oct. 14, 2021).

<sup>15</sup> *Labrador Diagnostics LLC v. BioFire Diagnostics, LLC et al.*, 1:20-cv-00348-CFC (D. Del.), D.I. 1; Aaron Holmes, *A company that bought Therasanos’ patents is using them to sue a health startup working on coronavirus tests*, Business Insider, Mar. 17, 2020, available at <https://www.businessinsider.com/theranos-patents-fortress-labrador-diagnostics-lawsuit-biofire-coronavirus-tests-2020-3> (last visited Oct. 14, 2021).

<sup>16</sup> *Labrador Diagnostics LLC v. BioFire Diagnostics, LLC et al.*, 1:20-cv-00348-CFC (D. Del.), D.I. 7.

<sup>17</sup> Richard Loyd, *Irish NPE doubles down on US litigation campaign and continues to add patents*, IAM-Media, Feb. 17, 2020, available at <https://www.iam-media.com/litigation/irish-npe-doubles-down-us-litigation-campaign-it-continues-add-assets> (last visited Oct. 14, 2021).

for a patent assertion are never unearthed, leaving the defendant (and ultimately the fact finder) in the dark as to who is behind the assertion.

Improved transparency regarding the deep pockets that support patent assertion entities is important because having substantial (and speculative) funds behind a patent assertion changes the dynamics of these litigations. *First*, an increase of investment in litigation by financial backers has led to aggressive and abusive litigation tactics that undermine the functioning of the court system. Shell companies created solely to litigate have fewer reputational constraints than other litigants and they often cut corners in litigation. For example, one court observed that Uniloc entities opposing a motion to transfer a case from Texas to California had made a series of “troubling” “contradictory representations” to it about the Uniloc entities’ lack of connections to California.<sup>18</sup> And by creating novel corporate structures, these companies are also able to limit the system’s ability to hold them accountable. For example, one judge commented about various transfers of patents and ownership agreements between assorted Uniloc entities: “The Court suspects that Uniloc’s manipulations in allocating rights to the patents-in-suit to various Uniloc (possibly) shell entities is perhaps designed to insulate Uniloc Luxembourg from any award of sanctions in the event Uniloc loses this litigation (or some substantial part thereof).”<sup>19</sup>

*Second*, the damages claimed and/or demands made to settle a case are significantly inflated, because the aim is not to compensate a patent holder for use of an invention but instead to secure a high return on investment. Damages awards are generally intended to determine a “reasonable royalty” for a patent based on a hypothetical negotiation between a willing licensor and a willing licensee that occurs just *before* the first infringement and thus assess the incremental benefit of the patent compared to the next best alternative. But the application of this approach in court tends to focus instead on factors that occur *after* infringement. Another reason for this overcompensation is that, during a trial with a tight time limit, the jury will be focused on a single aspect of a complex product rather than the significance of that one aspect in the context of the whole product. Thus, a relatively minor feature takes on disproportionate significance in the mind of the jury and its damages award is accordingly disproportionately high.

Patent assertion entity investors are aware of and seek to exploit these weaknesses in our legal system. For example, an article by a Fortress executive observes that courts can grant “oversized awards” in the technology sector that “stem from the sheer complexity of interoperable components and systems sold as part of functional units, if not integrated devices.”<sup>20</sup> This strategy has been

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<sup>18</sup> *Uniloc USA, Inc. v. Apple Inc.*, No. 2:17-CV-00258-JRG, 2017 WL 11553227, at \*7-\*8 (E.D. Tex. Dec. 22, 2017).

<sup>19</sup> *Uniloc USA, Inc. v. Apple Inc.*, 3:18-cv-360-WHA, Dkt. No. 205 at 10 (N.D. Cal.) (redacted version of sealed Jan. 17, 2019 order).

<sup>20</sup> Eran Zur and John A. Squires, *Why Investment-friendly Patents Spell Trouble for Trolls*, Sept. 24, 2015, available at <https://knowledge.wharton.upenn.edu/article/why-investment-friendly-patents-spell-trouble-for-trolls/> (last visited Oct. 14, 2021).

reflected in the damages that Fortress-backed entities have sought in litigation. As an example, pursuant to a court-ordered procedure, Uniloc entities disclosed in litigation with Apple in 2018 that they would seek damages of between approximately \$757 million and \$1.5 billion for U.S. Patent No. 8,239,852 (the “’852 patent”), which purports to cover a method of providing software updates where a device identifier is used to determine eligibility for an update.<sup>21</sup> That demand is in stark contrast to contemporaneous valuations of the ’852 patent along with many others. In 2017, an auditor’s report valued the entire Uniloc Luxembourg portfolio—including the ’852 patent—at \$6.25 million.<sup>22</sup> Under a 2018 purchase agreement with Fortress, the ’852 patent and the rest of Uniloc Luxembourg’s patents were transferred to Fortress-backed Uniloc 2017 LLC for a total price of approximately \$33.6 million.<sup>23</sup> The VLSI campaign against Intel is another example of a Fortress-backed patent assertion entity obtaining patents that were not utilized by their original assignee or others, were purchased by VLSI for relatively low amounts and then asserted to be the basis for damages in excess of a billion dollars.<sup>24</sup> Of course, these patents did not suddenly leap in value in the hands of a Fortress affiliate. Instead, Fortress saw an opportunity to obtain a windfall.

Unfortunately, our courts are not well-equipped to limit the harms posed by sophisticated investor-backed patent assertion entities. *First*, as I described, U.S. courts frequently overinflate patent damages. Many courts have been permissive of unsupported and enormous damages claims, choosing to let a jury make a decision rather than properly exercising their gatekeeper role in preventing the jury from hearing unsupported and speculative damages theories and misapplying damages laws.

*Second*, courts have limited the ability of defendants to obtain discovery about financial backers of patent assertion entities and put that information before juries. In fact, investors backing patent assertions affirmatively seek to conceal their roles from juries. For instance, during VLSI’s trials against Intel Corporation, VLSI successfully moved the court to exclude all mention of Fortress before the jury.<sup>25</sup> Accordingly, juries often lack crucial context about why damages demands are so high insofar as they reflect a need for an investment return rather than an accurate view of the reasonable royalty for rights to the patented invention. Further, courts often hamper defendants in providing juries with context about the investment interests in patent assertion entities so that those patent assertion entities can mislead juries into believing that a trial is a David versus Goliath battle aimed at vindicating innovation, rather than an investment strategy by a well-financed investment firm standing behind the ostensible plaintiff.

This growing trend in patent litigation taxes innovation and, ultimately, American companies and others that do business in the United States.

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<sup>21</sup> Second Amended Complaint (Public Version) ¶¶ 187-188, 207-208, *Intel Corp. v. Fortress Investment Group LLC*, No. 3:19-cv-07651-EMC (N.D. Cal. Mar. 8, 2021), Dkt. 236.

<sup>22</sup> *Id.* ¶¶ 64-67.

<sup>23</sup> *Id.* ¶¶ 64-65.

<sup>24</sup> *See, e.g., VLSI Technology LLC v. Intel Corp.*, 6:21-cv-0057-ADA (W.D. Tex.).

<sup>25</sup> *See, e.g., id.*, Dkt. 602 at 16-17.

*First*, the costs and risks of defending a single patent litigation can be significant and they only go up when patent assertion entities abuse the system. Significantly, the burdens in patent litigation are asymmetric between defendants that design, produce, and sell products and patent assertion entities that are just in the business of litigating. Defendants can incur significant expenses and use of employee time in discovery, including making employees available for depositions and trial and substantial costs for the collection and review of documents from across the company. These costs, as well as damages awards or settlement amounts paid, require re-direction of resources that would otherwise have been spent on business operations or additional research and development, thereby affecting a company's ability to compete and thrive, and to continue advancing technology at the pace it otherwise could. By contrast, patent assertion entities generally do not have reciprocally onerous discovery obligations because they have few employees and limited operations. And in contrast to how operating-company defendants put funds to use, any damages awards or settlement payments that end up in the hands of patent assertion entities and the investment and finance firms that back them are not invested directly in research, development, or innovation.

*Second*, the prevalence of investment-backed patent assertions often leads to multiple assertions targeting the same products, and damages awards and settlement demands that at some point become cost prohibitive and would prevent a company from making a profit. For example, if a company sells a product for \$10, but multiple patent holders demand a \$6 per-unit royalty, then after licensing just 2 patents, the company will have to pay \$12 per product—more than the selling price of the product. Even one royalty of \$6 could leave the seller without enough to cover the cost of making the product. That means that the company would lose money selling the products. When a company is forced to pay patent assertion entities amounts that exceed the profits it makes per product, it is not able to manufacture its products, pay its engineers and employees, conduct research and development, maintain factories or construct new factories, provide value to shareholders, or continue innovating and developing new products. This is a particular problem with complex products that have hundreds or thousands of features that may be targeted by dozens of patent assertions.

*Third*, investment firm-backed patent assertions negatively affect American companies and others that do business in the United States. Investment firms are pursuing patent assertions in the United States because the damages awards associated with patent infringement are larger here than in any other country in the world and are continuing to climb. Total damages awarded in patent cases for 2020 were a reported \$4.67 billion, up from \$1.5 billion in 2019.<sup>26</sup> Investors take note of the opportunities in U.S. courts. For example, a 2021 summary from Burford Capital of trends in patent litigation observes that “[f]or Asia-based companies, the US has become an ever-more attractive venue for IP enforcement strategies. This recent trend is undoubtedly linked to the rise in eight- and nine-figure damages awards in the US: In the last 12 months, the US has seen several IP damages awards

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<sup>26</sup> Rory O'Neill, *Patent lawsuit and damages on the rise in the US*, World Intellectual Property Review, Mar. 15, 2021, available at <https://www.worldipreview.com/news/patent-lawsuits-and-damages-on-the-rise-in-us-21137> (reporting data from Lex Machina's annual Patent Litigation Report) (last visited Oct. 14, 2021).



over \$100 million.”<sup>27</sup> And the companies susceptible to patent infringement lawsuits in the United States are companies that make and/or sell their products in this country. The more sales you make in this country or the more products you manufacture here, the larger the potential damages base is for a patent assertion entity to pursue in a lawsuit.

Accordingly, the companies that are disproportionately affected by investment firms hiding behind patent assertion shells and pursuing patent litigation as an investment strategy are the very companies that make and sell their products in the United States. It is these companies that contend with having to direct substantial resources to defend against patent litigation, to pay settlements to avoid the full cost of defense or risk that a jury might award considerable damages to the patent holder. And it is therefore these companies whose operations, research and development, and ability to compete with their global counterparts are negatively affected by this emerging trend in U.S. patent litigation.

The lack of transparency also poses an obvious risk to national and economic security. It’s not hard to see how a foreign competitor – acting through a sovereign wealth fund or a private sector entity like a foreign hedge fund – could make targeted investments in litigation funding, undermining critical U.S. industries like semiconductor manufacturing. In fact, this is already happening - foreign actors, including foreign governments, are increasingly taking advantage of the flaws in the system to target critical U.S. industries.<sup>28</sup>

No matter the case outcome, it’s literally all upside for them. By suing U.S. companies in critical industries, they force them to spend vast resources defending themselves in court that would otherwise be invested in R&D, workforce development, manufacturing, community investment and commercial development.

Companies like Intel can’t afford to lose, because the risk to our business is real, but the calculus is different for the foreign actors. If they lose every lawsuit, they’ve already won since the U.S. competitor has had to waste money and human capital. But if they win even a handful of lawsuits, they stand to gain potentially billions of dollars. And since the parties funding these suits don’t use the patents to design or manufacture anything of value, the downside risk is minimal. It’s akin to asymmetrical warfare, and I can assure you that our strategic competitors don’t have to face this in their home markets.

Through other processes, the United States (and many other countries) already require disclosure of foreign ownership interests in assets which might implicate national security. This bill supports those efforts by helping to close a knowledge gap. This is especially important since intellectual property is

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<sup>27</sup> Emily Hostage & Quentin Pak, *Trends in IP & patent litigation*, Burford Capital, Feb. 19, 2021, available at <https://www.burfordcapital.com/insights/insights-container/burford-quarterly-2021-patent-trends> (last visited Oct. 14, 2021).

<sup>28</sup> Dan Levine & Miyoung Kim, *Insight: Nation-states enter contentious patent-buying business*, March 20, 2013, available at <https://www.reuters.com/article/us-patents-nations-insight-idUSBRE92J07B20130320>

increasingly the most valuable asset in the modern economy – according to some sources, intangible assets, including intellectual property, now represents over 90 percent of the valuation of S&P 500 companies and this number is only going up. Intellectual property underpins America’s technological leadership and this has implications for civilian markets as well as the defense and national security sectors. This bill brings needed sunlight to these assets.

Unfortunately, our patent system is imperfect and some of the smartest minds on Wall Street and in foreign countries know how to exploit its weaknesses and they are doing it on a massive scale. These investment entities do not have the best interests of the U.S. economy in mind, and their exploitation of our patent system is reminiscent of the rapacious exploitation of our financial system that led to the global financial crisis in 2008. Investment-driven patent litigation has moved from being a nuisance to a menace, and we need to take action now before it irreparably harms the companies central to U.S. economic innovation and national security, resulting in another crisis.

While “The Pride in Patent Ownership Act” won’t solve all these problems, it will at the very least go a long way towards helping us identify the scope of the problem, and it’s a necessary first step in reigning in these abuses of our legal system that hamper our economic growth and harm our national security. It’s hard to see how anyone can justify that it’s in America’s interest to allow professional litigants to hold secret limited monopolies.

Greater transparency in patent ownership will provide substantial benefits with minimal costs and burdens to inventors. Completing a patent assignment document is estimated by the USPTO to take ½ hour and cost \$145 on average.<sup>29</sup> This is small in comparison to an average cost of filing a patent application that ranges between \$8000-\$10,000 depending on complexity and field, and lifetime costs assuming all annuities are paid from roughly \$20,000 to \$30,000.<sup>30</sup>

Thank you again for allowing me to testify before your Committee today and I look forward to answering any questions the Committee may have.

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<sup>29</sup> Federal Register, Recording Assignments, available at <https://www.federalregister.gov/documents/2018/01/29/2018-01608/recording-assignments> (last visited Oct. 14, 2021).

<sup>30</sup> 2019 Report of the Economic Survey, AIPLA, available at <https://www.aipla.org/detail/journal-issue/2019-report-of-the-economic-survey> (last visited Sept. 29, 2021).

**Questions for Professor Robin Feldman  
Submitted by Senator Patrick Leahy  
October 26, 2021**

1. There is an active antitrust discussion right now about how a few companies dominate the American economy at the expense of small businesses and ordinary Americans.
  - a. **For antitrust purposes, can we understand a company's power within a market if we don't know what patents the company owns?**

**Questions for Ms. Abigail Rives  
Submitted by Senator Patrick Leahy  
October 26, 2021**

1. My bill with Ranking Member Tillis—the Pride in Patent Ownership Act—requires recording the ultimate parent company of a patent owner.
  - a. **Why might a small business owner, concerned about her business, benefit from knowing the ultimate parent company when she looks at a U.S. patent?**
  - b. **Are there other pieces of information, such as who has an exclusive license to the patent, or who stands to benefit from asserting the patent, that you would like to know when you look at a U.S. patent?**
2. The U.S. Patent and Trademark Office has long kept a register of interests in patents.
  - a. **Have you tried to look up the patent portfolio owned by a particular company in that database? Is the database user-friendly?**
  - b. **Do you have ideas for ways to make that database more accessible to the public?**

**Written Questions for Mr. Allon Stabinsky  
Submitted by Senator Patrick Leahy  
October 26, 2021**

1. You mentioned in your testimony that the lack of patent ownership transparency poses a risk to America's economic security. Companies in other countries can buy U.S. patents, without the public knowing what happened.
  - a. **When you have a massive judgment levied against you as a manufacturer, by a foreign entity that does not produce any products, does that cost get passed along to consumers? Is that effectively a hidden tax on American consumers?**
2. If you are shown a patent that covers a new product you want to make, I imagine you would want to know some information about that patent.
  - a. **Will you please describe the steps you would have to take under current law to find out who to approach about licensing the patent? How would you figure out who is making decisions and who stands to gain from a license to the patent?**
  - b. **Have you experienced a situation where you found out the owner of a patent only to discover that you already had a license to the patent?**
3. Some argue that, while transparency in patent ownership broadly makes sense, it is overly burdensome to have to record when a patent is transferred internally within a company, and any transparency rule should excuse intra-company transfers.
  - a. **Will you briefly describe the compliance requirements, for example with the Securities and Exchange Commission, when a company sets up a new subsidiary to hold its patents, and how much more work for a company's compliance officers will be added by having to record the transfer with the U.S. Patent and Trademark Office?**
  - b. **Why might the public have an interest in intra-company transfers of patents, whether they are subsidiaries within the United States or in different countries?**

**Senator Thom Tillis**  
**Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property**

**Questions for the Record**  
**Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021**

**Professor Robin Feldman**  
**Arthur J. Goldberg Distinguished Professor of Law**  
**Albert Abramson '54 Distinguished Professor of Law Chair**  
**Director of the Center for Innovation (C4I)**  
**University of California Hastings Law**

1. Please share your thoughts on our bill, Pride in Patent Ownership.
2. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?
3. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?
4. Are there some interests that should be recorded, but not made public?
5. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?
6. Would it matter if ownership records would have to be kept up to date at the patent office, but not disclosed publicly, or disclosed with certain restrictions, like registering an account?
7. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?
8. Can you provide some specific examples of the various types of interests affecting patents that the USPTO should consider including in its recording system? Your written testimony addresses the need to consider including the transfer of the right to develop a product or assert the patent against others. What rights and interests beyond ownership should the USPTO consider requiring? Should there be different incentives for different rights and interests?
9. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

**Senator Thom Tillis**  
**Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property**

**Questions for the Record**

**Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021**

**Abby Rives, Intellectual Property Counsel, Engine Advocacy**

1. Please share your thoughts on our bill, Pride in Patent Ownership.
2. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?
3. What are your views on requiring mandatory reporting of certain ownership interests at the USPTO?
4. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?
5. Are there some interests that should be recorded, but not public?
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10. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

**Senator Thom Tillis**  
**Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property**

**Questions for the Record**  
**Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021**

**Allon Stabinsky, Senior Vice President**  
**Chief Deputy General Counsel, Intel Legal Department**

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10. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?



**Senator Thom Tillis**  
**Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property**

**Questions for the Record**

**Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021**

**The Honorable David Kappos, Former Director, United States Patent and Trademark Office, Partner,  
Cravath, Swaine & Moore LLP**

1. Your written testimony addresses several areas for further consideration of our bill, Pride in Patent Ownership. Please share any additional thoughts you may have.
  - a. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?
  - b. Your written testimony refers to the use of safe harbors for those who record ownership promptly and accurately. Could you please elaborate on how that could work?
2. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?
3. Your written testimony recommends the bill provide guidance to the USPTO to ensure its implementation minimizes the need to make fine legal judgments about what rights must be recorded, and include a list of interests that need *not* be recorded under the mandatory provisions of the bill. Could you explain why security liens should not trigger a recordation requirement? What are your thoughts as to whether, similar to the Copyright Act, the Patent Act should include “hypothecations” and require recordal at the national level, rather than state, to perfect security interests?
4. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?
5. Would it matter if ownership records or other interests would have to be kept up to date at the patent office, but not disclosed publicly, or disclosed with certain restrictions, like registering an account?
6. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?
7. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

**Senator Marsha Blackburn  
Questions for the Record to Robin Feldman  
Center for Innovation, UC Hastings Law**

1. There is an idea that a registry of patent ownership interests can benefit patent licensees by creating transparency about who owns what patents. Despite concerns about compliance and privacy, could tracking patent ownership information ease commerce and perhaps avoid some litigation over licenses and rights?
2. What are some reforms related to tracking patent ownership you would like to see? Are there any examples of systems in other countries that work well?

**Senator Marsha Blackburn**  
**Questions for the Record to David J. Kappos**  
**Former Director, USPTO**

1. Please discuss the Chinese government's goals, objectives, and intentions with patent systems worldwide, as well as in the United States more specifically.
2. Does the current lack of transparency and inability to track U.S. patent ownership aid intellectual property theft by foreign entities such as China? If so, how would tracking patent ownership alleviate the issue?
3. Previous efforts by the USPTO to establish ownership transparency rules have received some criticism about the cost and complexity of compliance and some privacy concerns. Does the Pride in Patent Ownership Act by Senators Leahy and Tillis address any of those concerns?
4. What are some reforms related to tracking patent ownership you would like to see? Are there any examples of systems in other countries that work well?
5. One of the motivations behind the Pride in Patent Ownership Act is that we should have transparency regarding who the beneficial owner of a patent really is. But it seems that it's also often difficult to know which parties benefit from challenges to patents at the Patent Trial and Appeal Board. If the goal of this legislation is to increase transparency, shouldn't we require reciprocal transparency for parties petitioning the Patent Trial and Appeal Board to challenge patent rights?

**Senator Marsha Blackburn  
Questions for the Record to Abigail Rives  
IP Counsel, Engine**

1. Intellectual property theft continues to be a problem for our innovative industries. Is IP theft a major issue for your company and organization? What impact has it had on the businesses you represent?
2. Does the current lack of transparency and inability to track U.S. patent ownership aid intellectual property theft by foreign entities such as China? If so, how would tracking patent ownership alleviate the issue?
3. Previous efforts by the USPTO to establish ownership transparency rules have received some criticism about the cost and complexity of compliance and some privacy concerns. Does the Pride in Patent Ownership Act by Senators Leahy and Tillis address any of those concerns?
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**Senator Marsha Blackburn  
Questions for the Record to Allon Stabinsky  
Chief Deputy General Counsel, Intel**

1. Intellectual property theft continues to be a problem for our innovative industries. Is IP theft a major issue for your company and organization? What impact has it had on the businesses you represent?
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**Robin Feldman**

Arthur J. Goldberg Distinguished Professor of Law  
Director, Center for Innovation

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October 20, 2022

The Honorable Richard J. Durbin  
United States Senate  
Chair of the Committee on the Judiciary  
Washington, DC 20510-6275

Dear Senator Durbin,

I am grateful for the opportunity to respond to questions for the record regarding the hearing entitled "Pride in Patent Ownership: The Value of Knowing Who Owns a Patent," held on Tuesday, October 19, 2021. Below are my thoughts:

**Senator Patrick Leahy**

1. There is an active antitrust discussion right now about how a few companies dominate the American economy at the expense of small businesses and ordinary Americans.
  - a. For antitrust purposes, can we understand a company's power within a market if we don't know what patents the company owns?

Patents provide a valuable opportunity to obtain power in a market by excluding others from making, using, or selling a product. Ownership of a patent does not guarantee market power; there may be substitutes or the market may not value the invention. Nevertheless, the power to exclude others from the market can be extraordinarily valuable, providing billions of dollars in revenue.

In modern markets, patents play an essential role in creating and supporting market power. One cannot understand a company's power within a market, as defined in antitrust terms, without understanding all sources of that power, including a company's patents.

**Senator Marsha Blackburn**

1. There is an idea that a registry of patent ownership interests can benefit patent licensees by creating transparency about who owns what patents. Despite concerns about compliance and privacy, could tracking patent ownership information ease commerce and perhaps avoid some litigation over licenses and rights?

Ownership information reduces transaction costs in the system, helping market participants properly negotiate permission and maximize innovation efficiency. Lack of ownership information creates a drag on the system, leading to wasteful costs and needless litigation. As I have written in the past, "markets, like gardens, grow best in the sun."<sup>1</sup>

2. What are some reforms related to tracking patent ownership you would like to see? Are there any examples of systems in other countries that work well?

I am not an expert on patent systems outside the United States. However, market participants ought to be able to rely on publicly recorded information at the United States Patent and Trademark Office (USPTO). Patent holders should be required to provide full and timely disclosure to the USPTO when transferring ownership. The agency could be directed to make that information public, just as most patent applications are released to the public.

**Senator Thom Tillis**

1. Please share your thoughts on our bill, *Pride in Patent Ownership*.

American capitalism is founded on the precept that markets should be open and free. The *Pride in Patent Ownership Act* follows that precept. By ensuring the timely publication of patent ownership interests, the Act would help provide information that is essential for a more efficiently functioning market.

2. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?

I am heartened by the bipartisan interest in the goal of transparency, as reflected in the *Pride in Patent Ownership Act*. In terms of the operative provisions of the bill, one could consider a stronger effect for failure to provide information to the USPTO, in the interests of encouraging disclosure. The current provision would allow companies to

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<sup>1</sup> See Robin Feldman, *Perverse Incentives*, 57 HARVARD J. ON LEGIS. 303, 359 (2020).

wait until the eve of an enforcement litigation without consequence, which would fall short of the goal of full transparency. One would hope that companies will comply with the clear directive of the law to provide information at the appropriate time—certainly one could expect companies to do their best to comply with explicit legal requirements. Nevertheless, some might choose to ignore the directive and file only when the penalty would operate.

3. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?

Layers of shell companies can make it difficult for those who receive patent demands to determine if they already hold a license from a related entity or to challenge the appropriateness of the demand against them. As I noted in my testimony, one company involved in a lawsuit could not even determine who was asserting the patents.<sup>2</sup> Lack of information creates wasteful litigation and transaction costs, burdening the courts and market participants. Full and complete information, including the ultimate parent company, creates value by avoiding such waste.

4. Are there some interests that should be recorded, but not made public?

To the extent that the goal is to provide transparency for a more efficiently functioning market, information that is recorded but not made public would not serve the goal.

5. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?

In the American capitalist system, the ability to know who holds an asset and how to reach that party is an essential starting point for any market. Time spent chasing down ownership information or entangled in needless lawsuits is time spent away from the activities that fuel innovation, create jobs in this country, and boost the nation's economy.

6. Would it matter if ownership records would have to be kept up to date at the patent office but not disclosed publicly, or disclosed with certain restrictions, like registering an account?

I would have to understand the proposed restrictions. As a general matter, however, nonpublic information does not advance the goal of providing transparency for a more efficiently functioning market.

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<sup>2</sup> *Id.* at 39–40 (citing No. 11-CV-0671 (N.D. Cal. filed Feb. 14, 2011)) (in which the company filed a declaratory judgment action challenging some of the patents asserted against it, but the judge dismissed some of the parties named on the grounds that the patent owners were really seven other shell companies associated with the aggregator, rather than the ones the company had named).



7. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?

Regulation always requires a careful balancing to ensure that any burdens are minimized and appropriately placed. That principle is particularly important to small players in the system. In this case, the Pride in Patent Ownership bill properly locates the burden of failure to comply in a way that it is likely to fall on larger players. For example, if a small player transfers patent ownership, that transfer is likely to be to a bigger entity. The penalty for failure to comply with recordation is that the new patent owner will be unable to recover increased monetary damages in a patent action. Thus, the new patent owner—the big player—will have an incentive to ensure proper recordation. The burden will fall on the big player, not the small business or independent inventor.

8. Can you provide some specific examples of the various types of interests affecting patents that the USPTO should consider including in its recording system? Your written testimony addresses the need to consider including the transfer of the right to develop a product or assert the patent against others. What rights and interests beyond ownership should the USPTO consider requiring? Should there be different incentives for different rights and interests?

In my view, the key additional information to consider, beyond ownership, is the right to assert the patent. Market participants should know both whom they can approach for a license and who has the right to approach them to insist on a license.

The reference in my testimony to the right to develop a product was intended to indicate the vehicle for transferring ownership-like rights to assert a patent. It was not intended to suggest that one should record the transfer of a right to develop a product or any type of simple license.

9. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

Human beings are not perfect. All agencies should provide a method for correcting errors in recordation, either those made by the parties or by the agency itself. Public posting of information also helps, providing the free and open flow of information that makes it more likely for errors to come to light.

Warmest regards,



Robin Feldman

**Senator Thom Tillis**  
**Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property**

**Questions for the Record**  
**Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021**

**The Honorable David Kappos, Former Director, United States Patent and Trademark Office, Partner, Cravath, Swaine & Moore LLP**

1. Your written testimony addresses several areas for further consideration of our bill, Pride in Patent Ownership. Please share any additional thoughts you may have.
  - a. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?

In addition to the positive incentives I mentioned in my written testimony, another possibility to consider is providing those who properly record increased access to enhanced damages in an infringement action. The purpose of this bill—the reason transparency matters—is to empower responsible companies to take action. Many have focused on one form of action—allowing parties to determine whether a patent is valid, and if they determine it is not, opposing it. But equally as important, action means expecting a party that knows a patent is likely valid to license it from its recorded owner, or avoid infringement. Perhaps it is worthy of further consideration by Congress that where there is a clearly recorded owner and a party fails to obtain a license or avoid infringement, the judge can at least take this into account in assessing willful infringement, and in determining whether to award enhanced damages, and how much to enhance them. Offering some level of presumption would be another way to implement a positive incentive. As other witnesses stated last week — laws need to have teeth. Teeth of this sort would strongly incent patentees to record their ownership quickly and accurately, and also provide balance to the legislation, sending a message to our foreign competitors that the US is serious about protecting the rights of good faith patentees.

- b. Your written testimony refers to the use of safe harbors for those who record ownership promptly and accurately. Could you please elaborate on how that could work?

The bill could afford safe harbor protection in a variety of scenarios. One possibility could be when patentees record their interests in accordance with published examples provided by the USPTO. Another possibility could be to grant a safe harbor to those who record following the guidance of USPTO staff.

The safe harbors would create a presumption that the patentee who is afforded their protection recorded appropriately. For example, if the legislation is adjusted to reserve the loss of willful infringement for patentees who flaunt or intentionally disregard the recording requirement, the safe harbor could establish a presumption of good faith to negate this penalty.

2. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?

In general, my experience demonstrates that the ultimate parent is usually already recorded on patent applications, so in many cases, such a requirement would be consistent with current practice. The value in the ultimate parent recording is that it often provides the public with the entity that is in “ultimate control” of the patent. This is especially important when actors establish a web of parent and subsidiary relationships for the specific purpose of concealing the ultimate parent’s identity. Thus, in many cases, I see requiring the ultimate parent to record as helpful.

However, we must be mindful of the fact that there may be situations where such a requirement may not be as beneficial. In some scenarios, this requirement could overly burden patentees. For example, for companies that have overseas parents or where parentage is complicated (like when multiple parents exist or in joint ventures) who constitutes the ultimate parent is hazy. Conversely, there are situations where it is trivial to tell who the ultimate parent is but that information is not helpful in determining who is really in control. For example, if a subsidiary has exclusive rights to a patent that are not shared with the ultimate parent, listing the ultimate parent muddles the public’s understanding of who really is in control.

Teasing out these differences of when it is good versus bad policy for an ultimate parent to record is precisely the kind of nuance the USPTO needs to consider to make sure that it is implementing the legislation in a way that maximizes the purposes of transparency while minimizing superfluous burdens.

Lastly, in addition to CFIUS, Dodd Frank contains very sensible and helpful language that gets at this “control” issue, and it should definitely be consulted.

3. Your written testimony recommends the bill provide guidance to the USPTO to ensure its implementation minimizes the need to make fine legal judgments about what rights must be recorded, and include a list of interests that need *not* be recorded under the mandatory provisions of the bill.

Could you explain why security liens should not trigger a recordation requirement? What are your thoughts as to whether, similar to the Copyright Act, the Patent Act should include “hypothecations” and require recordal at the national level, rather than state, to perfect security interests?

There are thousands of security liens filed every year on patent interests. The vast majority of these liens remain purely contingent, and never confer any control or other rights beyond the foreclosure right to the creditor, so they provide little insight into the creditor’s interest in the patent. Additionally, these liens are already normally recorded with the USPTO in its existing ownership/lien recordal registry, and on state registers. Given these facts, the compliance burden of requiring recordation outweighs any benefits of doing so. Perhaps a better approach to use for lien recordal is to simply cross-refer to the USPTO’s existing system. Of course, when lien interests do trigger control rights in the situation of default, the USPTO’s definition of “certain rights or interests in a patent” should be structured to capture the shifting ownership interests, and require recording then.

Whether recording should be required at the national versus the state level is not something I have studied and is a topic that needs to be separately evaluated. One thing to consider in this analysis could be the compliance burden versus the value of simplifying UCC lien recordal by having it conducted at the federal rather than the state level.

4. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?

As I've discussed, one of the core purposes of this bill is to make it easier for good faith participants in the marketplace to understand who has interests in a patent to facilitate licensing or avoidance. Encouraging licensing incentivizes innovation and encourages parties to proactively deal with patent owners in good faith rather than take a "wait and see" approach that leads to infringement and costly litigation.

5. Would it matter if ownership records or other interests would have to be kept up to date at the patent office, but not disclosed publicly, or disclosed with certain restrictions, like registering an account?

It is my understanding that the intent of this legislation is to make the database publicly searchable, which I do find appropriate and appealing. However, the contours of how this database will work in a variety of different scenarios is another thing the USPTO needs to take input on. There may be legitimate reasons why, at least for a short period of time, a party may want to keep its identity secret, and the USPTO may determine that some accommodation should be made in these circumstances.

6. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?

A good way to ensure smaller innovators are not overly burdened by this legislation is for the USPTO to target outreach efforts to the entities already classified in its system as "small" and "micro". Regular and repeated outreach to these small and micro entities will go a long way towards assisting in compliance. Also, the USPTO can proactively use its Patents Ombudsman program to support small and micro entities to ensure that they have the resources and advice necessary to comply with the bill.

On a more general level, this bill can help smaller innovators by preventing kafkaesque recording experiences. Two key ways this bill can reduce administrative burdens is to provide clarity to the USPTO on the policy objectives this legislation seeks to achieve, and to establish reasonable time periods for compliance, which I see as warranting more than 90 days.

7. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

There are a variety of ways to reduce errors in the recordation process. First, the USPTO must provide clear instructions to patentees on what interests to record. I've mentioned providing examples as an important way to accomplish this goal. Second, the USPTO can establish a reminder system for patentees to ensure compliance. Third, the USPTO should explore using artificial intelligence to flag potential errors made in good faith at the time recordation is made. Many such errors can be spotted using technology that compiles publicly available information from other sources—SEC filings, public statements, disclosed agreements, the USPTO's own existing ownership/lien recording system, etc. By catching these errors at the source, the USPTO can ensure that they are corrected earlier in time, which will greatly improve the integrity of the entire recordal system.

**Senator Marsha Blackburn  
Questions for the Record to David J. Kappos  
Former Director, USPTO**

1. Please discuss the Chinese government's goals, objectives and intentions with patent systems worldwide, as well as in the United States more specifically.

While not a focus of the bill, China and other global competitor nations benefit from the U.S.'s own mis-steps regarding prioritization of innovation. Our laws and public policies have not prioritized innovation in this country. For example, the current state of § 101 jurisprudence is a mess, making it much easier to get a patent covering artificial intelligence in China than the U.S. This is not China's fault; it is our fault. Global investment funds are taking notice and if the current state of affairs continues investors will be more likely to invest in Chinese companies over domestic companies.

As I discuss later, the bill will assist with helping us understand how state actors everywhere may hurt the U.S. position as an innovation leader. But to be truly competitive, we need to have a wider conversation about the revamping of our patent system to encourage innovation in this country.

2. Does the current lack of transparency and inability to track U.S. patent ownership aid intellectual property theft by foreign entities such as China? If so, how would tracking patent ownership alleviate the issue?

The current lack of transparency has directly enabled the emergence of state actors who consistently file or pay for the filing of patents in the U.S., without any ability for us to understand their involvement. The fact that I cannot provide any concrete numbers regarding the level of intellectual property theft currently occurring by foreign entities is a reflection of the necessity for transparency. I believe the bill takes a first big step in addressing the problem—its grant of USPTO authority over patentees which do not disclose a foreign government's funding of their applications or maintenance fees or payment of attorney fees to prosecute their patents should dramatically increase our ability to understand the level of intellectual property theft that is occurring.

3. Previous efforts by the USPTO to establish ownership transparency rules have received some criticism about the cost and complexity of compliance and some privacy concerns. Does the Pride in Patent Ownership Act by Senators Leahy and Tillis address any of those concerns?

While there may be some administrative costs to implementing these rules, I believe the transparency they provide significantly reduces costs currently not being accounted for—most importantly, the cost uncertainty in patent ownership creates. As discussed in my testimony, the bill will permit good faith participants in the marketplace to affirmatively license patents or avoid infringement. Increased licensing creates a positive feedback loop by incentivizing patent ownership, while also directly supporting innovation from the licensee's use of the

patent. Avoiding infringement dramatically reduces occurrences of costly litigation that does not contribute to the innovation engine of this country.

In terms of privacy concerns, there may be sound reasons why a party may want to keep its identity a secret, at least temporarily. That is why I suggest the USPTO take a flexible approach in coming up with a system for accommodation in such circumstances that balances the competing interests in transparency and privacy.

4. What are some reforms related to tracking patent ownership you would like to see? Are there any examples of systems in other countries that work well?

The USPTO should take a technology-first approach in implementing the bill. I greatly encourage the bill's contemplation of making the database publicly searchable, given it balances the privacy interests I mentioned above. I also recommend employing new technology in implementing the legislation, such as blockchain and artificial intelligence, to reduce errors in the recording process and ensure that they are corrected earlier in time.

Outreach efforts are also key, especially for smaller innovators that will need to comply with the bill. The USPTO can leverage its Patents Ombudsman program to support "small" and "micro" businesses (as already classified in its system) to ensure they have the support needed to comply.

5. One of the motivations behind the Pride in Patent Ownership Act is that we should have transparency regarding who the beneficial owner of a patent really is. But it seems that it's also often difficult to know which parties benefit from challenges to patents at the Patent Trial and Appeal Board. If the goal of this legislation is to increase transparency, shouldn't we require reciprocal transparency for parties petitioning the Patent Trial and Appeal Board to challenge patent rights?

While beyond the scope of the bill, I agree it would be positive for our patent system to see more transparency in the disclosure of parties connected to PTAB challenges.

**Questions for Ms. Abigail Rives  
Submitted by Senator Patrick Leahy  
October 26, 2021**

**1. My bill with Ranking Member Tillis—the Pride in Patent Ownership Act—requires recording the ultimate parent company of a patent owner.**

**a. Why might a small business owner, concerned about her business, benefit from knowing the ultimate parent company when she looks at a U.S. patent?**

There are a number of reasons a startup or small business owner would benefit from knowing the parent company that owns a U.S. patent. This type of information can, e.g., reduce transaction costs and improve the market for patent licensing, equip startups with information to respond to (even frivolous or abusive) patent assertion, and discourage abusive practices.

First, if a startup founder wants to license patented technology, she needs to know who to ask for a license. That process is most efficient (and affordable) if she can quickly find accurate ownership information. (The flip of this is also true. If a startup owns a patent and someone else wants to take a license or launch a partnership, the startup benefits when others can find them.)

Second, for a startup accused of infringement, knowing who ultimately owns the asserted patent can be critical in shaping the company's response. When a company receives a demand letter or is sued for infringement, it needs to assess things like validity, infringement, and licensing—and knowing who owns the patent helps in those assessments. For example, the startup might not infringe because it has a license from the patent owner's parent, or one of the startup's customers or suppliers might have a license that covers the startup's activities. Separately, a startup accused of infringing one patent might want to look up the parent company's patent portfolios and request a broader license that encompasses a few related technologies.

Knowing who owns a patent can also help startups accused of infringement respond efficiently and strategically. If the ultimate parent company has a well-documented history of asserting invalid patents against other small businesses, then the startup might devote a bit of time and money scrutinizing validity. A startup might want to know if the ultimate parent company has invested in the startup's competitors. And if the parent company is suing lots of small businesses at the same time, there might be ways for the accused startup to defend itself in coordination with others or ways to leverage state laws against abusive assertion.<sup>1</sup>

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<sup>1</sup> *E.g.*, 9 V.S.A. § 4197(b)(8) (defining bad faith assertion, in part, by looking to whether “[t]he person or its subsidiaries or affiliates have previously filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement”).



Third, hiding patent ownership enables abusive patent practices, and by bringing more transparency into the patent system it will help reduce the amount of frivolous and meritless patent assertion against U.S. startups.<sup>2</sup>

**b. Are there other pieces of information, such as who has an exclusive license to the patent, or who stands to benefit from asserting the patent, that you would like to know when you look at a U.S. patent?**

The Pride in Patent Ownership Act would make a valuable contribution, increasing transparency in the U.S. patent system so that startups, small businesses, and the public could more readily determine who owns patents. Additional information—for example, information that implicates validity, standing to sue, licenses, and litigation funding—can also be valuable; although, encouraging or mandating disclosure of some information should be balanced against competing interests.

First, a more user-friendly catalog of patent invalidity determinations would be helpful—where someone searching for a patent could also see court or Patent Trial and Appeal Board (PTAB) decisions on validity. Right now, information about invalidity can be spread out across, e.g., PACER,<sup>3</sup> court websites,<sup>4</sup> a PTAB decisions portal,<sup>5</sup> and private or subscription-based sources. But this information could be included in U.S. Patent and Trademark Office (USPTO) databases, like Patent Center,<sup>6</sup> so that when you searched for a given patent you would see whether any of its claims had been canceled. Right now, when you search Patent Center, there is a Documents & Transactions section where you can find PDFs noting whether claims were canceled through a PTAB proceeding.<sup>7</sup> For example:

<sup>2</sup> See generally Rives Testimony at 3-7.

<sup>3</sup> Public Access to Court Electronic Records. <https://pacer.uscourts.gov/> (last visited Sept. 1, 2022).

<sup>4</sup> E.g., Opinions & Orders. U.S. Court of Appeals for the Federal Circuit. <http://cafc.uscourts.gov/home/case-information/opinions-orders/> (last visited Sept. 5, 2022).

<sup>5</sup> PTAB Decisions. USPTO. <https://developer.uspto.gov/ptab-web/#/search/decisions> (last visited Sept. 1, 2022).

<sup>6</sup> Patent Center, USPTO. <https://patentcenter.uspto.gov/> (last visited Sept. 1, 2022).

<sup>7</sup> For example, I recently searched Patent Center for a handful of patents to see what information was available. For U.S. Patent No. 8,488,173, one of the patents (then an application) asserted by MPHJ in demand letters, Ricoh, Xerox, and Lexmark filed IPR2014-00538 challenging all claims of the patent. The PTAB held those claims were anticipated and obvious, and there is an IPR certificate in Patent Center recording that result. See, e.g., Joe Mullin, *Patent Trolls Want \$1,000—for Using Scanners*, ArsTechnica (Jan. 2, 2013), <https://arstechnica.com/tech-policy/2013/01/patent-trolls-want-1000-for-using-scanners/> (providing a copy of a demand letter). Similar information about the results of an IPR is available in Patent Center for, e.g., U.S. Patent No. 6,225,901.

The screenshot shows the USPTO Patent Center interface. The main header displays the patent number 13/182,857 and the title '51327-1084: Distributed Computer Architecture and Process for Document Management'. Below this, there is a table with columns for Application #, Attorney/Docter #, Patent #, Status, and Filing of 371 (if). A red box highlights a document in the 'Documents & transaction history' section, which is an 'INTER PARTES REVIEW CERTIFICATE' for U.S. Patent 8,488,173 K1, Trial No. IPR2014-00538, issued Feb. 23, 2018. The certificate states that as a result of the inter partes review proceedings, it has been determined that claims 1-8 are cancelled.

But that type of validity information might not be in Patent Center, especially if claims were held invalid or ineligible in court. I know courts are to submit reports to USPTO about the filing or determinations in a patent suit,<sup>8</sup> but in my experience that information is only sometimes available in Patent Center and the ultimate outcome of a lawsuit is often not apparent.<sup>9</sup> More consistent reporting and display of this information would help everyone know whether a patent is still valid and which of its claims are still in force.

<sup>8</sup> 35 U.S.C. § 290.

<sup>9</sup> For example, I recently searched Patent Center for a handful of patents to see what information was available. For U.S. Patent No. 8,401,710, there were no reports about the filing of suits and no reference to the fact that claims were held ineligible, as affirmed in *Elec. Power Grp., LLC v. Alstom S.A.*, 830 F.3d 1350 (Fed. Cir. 2016). The database search did report that the '710 patent expired due to nonpayment of maintenance fees in 2021. For U.S. Patent No. 8,578,500, I found 3 reports about the filing of suits, but none of those mentioned how claims of the patent were held ineligible, as affirmed in *FairWarning IP, LLC v. Iatric Sys., Inc.*, 839 F.3d 1089 (Fed. Cir. 2016).

**Example 1: *Electric Power Group, LLC v. Alstom S.A.***

The screenshot shows a patent database entry for application 13/249,152 titled "WIDE-AREA, REAL-TIME MONITORING AND VISUALIZATION SYSTEM". A red box highlights the text "Held: All asserted claims ineligible". To the right is a court decision from the United States Court of Appeals for the Federal Circuit, dated August 1, 2016, in the case of *ELECTRIC POWER GROUP, LLC. Plaintiff-Appellant v. ALSTOM S.A., ALSTOM GRID, INC., PSYMETRIX, LTD., ALSTOM LIMITED, Defendants-Appellees*. The decision is identified as 2015-1778 and is an appeal from the United States District Court for the Central District of California, No. 2:12-cv-06365-JGB-RZ, Judge Jesus G. Bernal.

**Example 2: *FairWarning IP, LLC v. Iatric Systems, Inc.***

The screenshot shows a patent database entry for application 11/687,864 titled "SYSTEM AND METHOD OF FRAUD AND MISUSE DETECTION". A red box highlights the text "Held: All asserted claims ineligible". To the right is a court decision from the United States Court of Appeals for the Federal Circuit, dated October 1, 2010, in the case of *FAIRWARNING IP, LLC, Plaintiff-Appellee v. IATRIC SYSTEMS, INC., Defendant-Appellant*. The decision is identified as 2011-2385 and is an appeal from the United States District Court for the Middle District of Florida, No. 09-13008-AMM, Judge Steven D. Merryday. A red box also highlights a table of documents and transactions in the patent database, with a callout showing a detailed view of a document.

Mail cover date	Doc code	Doc description
02/27/2010	0001,001	Grant Application
03/09/2010	010	Survival Payment (PFO-010)
03/09/2010	0001	Fee Worksheet (0300)
02/06/2010	0417	Electronic Filing System (EFS) Acknowledgment Receipt
01/11/2010	0004	Notice of Allowance and Fee Due (NFD-AF)
01/11/2010	0004	Index of Claims
01/11/2010	0004	Final Office Action (FOA) and Final Office Action (FOA)

Second, information that implicates a patent owner's standing to sue is critical in every suit. A company can own a patent but not have standing to assert it. For example, if a company granted a security interest in its patent portfolio, it may sacrifice standing to sue for infringement.<sup>10</sup> Both parties and the court need to know whether the plaintiff has standing, and everyone benefits when discrepancies are resolved expeditiously. Otherwise, parties and courts can waste months—or years—on costly litigation and discovery.<sup>11</sup> To my knowledge, many entities already record security interests with the USPTO, but when some patent owners try to conceal this information it can fuel abuse of the system and drive-up wasteful legal spending. Encouraging more transparency about these interests would provide useful information to litigants and the public.

Third, information about patent licenses can be important in assessing things like infringement liability, standing, and valuation. For example, the details of a license can tell an accused infringer if its work is actually authorized because a business partner took a license that covers the alleged infringement.<sup>12</sup> Licensing agreements can also create or defeat standing to assert patents or recover damages. For example, exclusive licensees may have standing to sue,<sup>13</sup> while a licensee's failure to mark (and contractual obligations around marking) can dictate damages for infringement.<sup>14</sup> Licenses can also tell us about the actual and purported value of a patent—which can be important not just in litigation, not just to accused infringers, but to the broader public. Indeed, in a case where Uniloc lacked standing to sue (and standing hinged on the amount it earned through license agreements), Judge Alsup recently reflected:

Because [a patentee's] rights flow directly from this government-conferred power to exclude, the public in turn has a strong interest in knowing the full extent of the terms and conditions involved in [the patentee's] exercise of its patent rights and in seeing the extent to which [the patentee's] exercise of the government grant affects commerce.

<sup>10</sup> See, e.g., Richard M. Assmus et al., *Value and Risk Considerations for Intellectual Property Collateral*, Am. Bar Assoc. (July 6, 2022), [https://www.americanbar.org/groups/intellectual\\_property\\_law/publications/landslide/2021-22/june-july/value-and-risk-considerations-intellectual-property-collateral/](https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2021-22/june-july/value-and-risk-considerations-intellectual-property-collateral/) (discussing language in security agreements that could transfer ownership to a lender); see also *id.* at n.24 (discussing cases where Uniloc lacked standing because it failed to meet revenue targets in an agreement with Fortress Credit Co., which triggered Fortress's rights to sublicense the patents in question and thereby deprived Uniloc of exclusive rights in the patent necessary for standing).

<sup>11</sup> See, e.g., *id.* at n.24 (citing cases).

<sup>12</sup> See, e.g., *TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009) (finding implied license to accused infringer where patent owner granted its supplier rights to sell).

<sup>13</sup> E.g., John Haynes & Lindsay C. Church, *Drafting Exclusive Patent Licenses and Standing Considerations*, Bloomberg Law (Feb. 13, 2018), <https://news.bloomberglaw.com/ip-law/drafting-exclusive-patent-licenses-and-standing-considerations>; John C. Paul et al., *Exclusive Licensee Without All Substantial Rights Can Independently Sue Patent Owner for Infringement*, Finnegan (Apr. 12, 2016), <https://www.finnegan.com/en/insights/articles/exclusive-licensee-without-all-substantial-rights-can.html>.

<sup>14</sup> E.g., Philippe J.C. Signore, *Patentees must Exercise Reasonable Efforts to Ensure that Licensees are Complying with the Marking Statute*, Oblon (Dec. 12, 2017), <https://www.oblon.com/publications/patentees-must-exercise-reasonable-efforts-to-ensure-that-licensees-are-complying-with-the-marking-statute>.



The impact of a patent on commerce is an important consideration of public interest. One consideration is the issue of marking by licensees. Another is recognition of the validity (or not) of the inventions. Another is in setting a reasonable royalty. In the latter context, patent holders tend to demand in litigation a vastly bloated figure in “reasonably royalties” compared to what they have earned in actual licenses of the same or comparable patents. There is a public need to police this litigation gimmick via more public access. We should never forget that every license has force and effect only because, in the first place, a patent constitutes a public grant of exclusive rights.<sup>15</sup>

And:

The public has an interest in inspecting the valuation of the patent rights revealed by Uniloc’s transactions, particularly given secrecy so often plays to the patentee’s advantage in forcing bloated royalties. It may even be that disclosure of prior patent licenses better illuminates parties’ positions, offering up-front cost evaluations of potentially infringing conduct and driving license values to a more accurate representation of the technological value of the patent. In addition, the patent license values here may inform reasonable royalties in other courts.<sup>16</sup>

That said, there are also countervailing reasons that parties might want to maintain certain patent licensing details as confidential business information. Deciding if, when, and how patent licenses are publicly disclosed (and subject to what redactions) requires balancing the value of disclosure with legitimate desires for secrecy.

Fourth, there is a growing need for better information about who is paying for, controlling, and reaping financial benefits from patent litigation. This helps parties and courts, for example, to understand conflicts of interest, investigate standing, and approach settlement.<sup>17</sup> Importantly, too, when wealthy entities can provide financial backing for patent assertion without revealing their identity, it fuels some problematic practices in the patent system.<sup>18</sup> Knowing more about litigation finance is valuable, although this might not be the sort of information that is registered with the USPTO, and instead disclosed at the time of and in the context of litigation or assertion.

<sup>15</sup> *Uniloc 2017 LLC v. Apple Inc.*, No. C 18-00360 WHA, 2019 WL 2009318, at \*1 (N.D. Cal. May 7, 2019), *aff’d in part, vacated in part, remanded*, 964 F.3d 1351 (Fed. Cir. 2020).

<sup>16</sup> *Uniloc USA, Inc. v. Apple, Inc.*, 508 F. Supp. 3d 550, 555 (N.D. Cal. 2020), *vacated and remanded*, 25 F.4th 1018 (Fed. Cir. 2022). See also *Uniloc USA, Inc. v. Apple, Inc.*, 508 F. Supp. 3d 550, 552 (N.D. Cal. 2020) (citing order concluding Uniloc lacked standing to sue); *Uniloc 2017 LLC v. Apple, Inc.*, 964 F.3d 1351, 1354-57 (Fed. Cir. 2020) (discussing procedural history).

<sup>17</sup> E.g., Kevin M. Lewis, Cong. Res. Serv., LSB10145, *Following the Money: Should Federal Law Require Litigants to Disclose Litigation Funding Agreements?* (2018) (discussing history and perspectives on litigation finance and associated disclosures); Marla Decker, *Litigation Funding Disclosure in Delaware: An Emerging Standard?*, *Above the Law* (May 25, 2022), <https://abovethelaw.com/2022/05/litigation-funding-disclosure-in-delaware-emerging-standard/> (similar).

<sup>18</sup> E.g., Rives Testimony at 4-5.

**2. The U.S. Patent and Trademark Office has long kept a register of interests in patents.**

**a. Have you tried to look up the patent portfolio owned by a particular company in that database? Is the database user-friendly?**

Yes, I have used various USPTO databases to look up patent ownership data, and—while the databases are only as good as the data provided to the agency—the search tools for the assignment database are relatively user-friendly,<sup>19</sup> especially by comparison to recently retired USPTO search tools.<sup>20</sup> As a litigation associate, one of the first things I did when I started working on a new matter was research ownership information and chain of title for the relevant patents. Searching the assignment database works quite well; you can search by patent or application numbers, assignors, assignees, and correspondents, and—at least in much of my experience—the search returns results in a logical fashion where you can see a chronological history of patent ownership information and links to the underlying documents. This site works much better than Public PAIR—which was decades old and difficult to search for a number of reasons. Public PAIR was retired in July, and while I have less experience with the new Patent Center, so far that new tool shows a lot of improvements. Although I would encourage USPTO to always continue thinking about whether and how its tools can be improved and to continue to consult with all stakeholders—including startups—about ways to make the tools most valuable.

That said, the USPTO's search tools are only as good as the information in its databases. Improving the accuracy and timeliness of the data parties submit to USPTO, as proposed in the Pride in Patent Ownership Act, is critical to the utility of these tools.

**b. Do you have ideas for ways to make that database more accessible to the public?**

At the outset, I applaud USPTO's efforts to continuously improve search tools; in the time I have been searching for patent information the tools have improved a lot and I hope the agency will keep looking for ways to augment these valuable resources. The current assignment search works quite well, but here are a few suggestions policymakers could consider: (1) Prompt assignees to provide the company's legal registered name as well as any assumed or trade names (e.g., d/b/a names), and allow users to search for patents based on the owner's official company name or the commonly known names. (2) Similarly, expand search queries to return, e.g., common nicknames and middle initials. For example, someone searching for my name might type in "Abigail Amato Rives," "Abigail A Rives," "Abby Rives," or some other variation. A search tool works best if any of those entries returns information under all of those names. (3) Provide better linking between USPTO search tools. For example, provide links from the assignment search results to information about the same patent in Patent Center or PTAB proceedings database.

<sup>19</sup> Patent Assignment Search, USPTO, <https://assignment.uspto.gov/patent/index.html#/patent/search> (last visited Sept. 1, 2022).

<sup>20</sup> *Public PAIR to be Retired*, USPTO, <https://www.uspto.gov/patents/public-pair-be-retired> (last visited Sept. 1, 2022).

Senator Thom Tillis

Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property

Questions for the Record

Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021

Abby Rives, Intellectual Property Counsel, Engine Advocacy

**1. Please share your thoughts on our bill, Pride in Patent Ownership**

The Pride in Patent Ownership Act is a timely and positive proposal to bring greater transparency to the U.S. patent system. It would, for example, reduce transaction costs and improve the market for patent licensing, equip startups with information to defend against frivolous or abusive patent assertion, and discourage abusive practices that draw money away from domestic innovation and economic growth.

**2. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?**

I think the bill, as is, is a strong proposal and I would be glad to see Congress move forward with the current version. That said, I hope Congress, policymakers, and researchers will view this as a first step towards greater transparency, and that you continue to monitor the bill's implementation to assess whether it is working as intended and whether further measures are warranted. In the future, I would encourage Congress and policymakers to consider the following:

- **Scope & timing:** As detailed below,<sup>1</sup> there is a lot of information about a patent that could be disclosed for the benefit of innovation, competition, or economic growth—for example, certain funding arrangements or information about licenses. And it might be that information could be disclosed at the start of litigation instead of recorded with the U.S. Patent and Trademark Office (USPTO).
- **Penalties:** It may be that the bill's consequence for a failure to register—sacrificing increased damages under § 284—is not a strong enough incentive. I think the current proposal is logical, reasonable, and balanced. But some entities who depend on concealing patent ownership might decide to just forego willfulness arguments and keep hiding information from the public. If that happens, a further penalty may be warranted.

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<sup>1</sup> *Infra* response to question 9.

**3. What are your views on requiring mandatory reporting of certain ownership interests at the USPTO?**

The Pride in Patent Ownership Act would create an incentive for patent owners to report timely, accurate information about who holds certain rights and interests in a patent. At this time, I think that is a good approach. Creating a different sort of mandate, with steeper penalties, might be necessary if this bill does not have the intended effect.<sup>2</sup>

**4. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?**

Yes, there are a number of reasons it would be valuable to record the ultimate parent company that owns a U.S. patent. This type of information can, e.g., reduce transaction costs and improve the market for patent licensing, equip startups with information to defend against frivolous or abusive patent assertion, and discourage those abusive practices.

First, if a startup founder wants to license patented technology, she needs to know who to ask for a license. That process is most efficient (and affordable) if she can quickly find accurate ownership information. (The flip of this is also true. If a startup owns a patent and someone else wants to take a license or launch a partnership, the startup benefits when others can find them.)

Second, for a startup accused of infringement, knowing who ultimately owns the asserted patent can be critical in shaping the company's response. When a company receives a demand letter or is sued for infringement, it needs to assess things like validity, infringement, and licensing—and knowing who owns the patent helps in those assessments. For example, the startup might not infringe because it has a license from the patent owner's parent, or one of the startup's customers or suppliers might have a license that covers the startup's activities. Separately, a startup accused of infringing one patent might want to look up the parent company's patent portfolios and request a broader license that encompasses a few related technologies.

Knowing who owns a patent can also help startups accused of infringement respond efficiently and strategically. If the ultimate parent company has a well-documented history of asserting invalid patents against other small businesses, then the startup might devote a bit of time and money scrutinizing validity. A startup might want to know if the ultimate parent company has invested in the startup's competitors. And if the parent company is suing lots of small businesses at the same time, there might be ways for the accused startup to defend itself in coordination with others or ways to leverage state laws against abusive assertion.<sup>3</sup>

<sup>2</sup> See, e.g., *supra* response to question 2.

<sup>3</sup> E.g., NC Gen Stat § 75-143(1)(8) (courts assess bad-faith assertion, in part, by looking to whether “[t]he person or its subsidiaries or affiliates have previously or concurrently filed or threatened to file one or more lawsuits based on the same or similar claim of patent infringement”).



Third, hiding patent ownership enables abusive patent practices, and by bringing more transparency into the patent system it will help reduce the amount of frivolous and meritless patent assertion against U.S. startups.<sup>4</sup>

**5. Are there some interests that should be recorded, but not public?**

I cannot think of any at this time.

**6. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?**

Yes, it would.

**7. Would it matter if ownership records would have to be kept up to date at the patent office, but not disclosed publicly, or disclosed with certain restrictions, like registering an account?**

Patent law is supposed to serve the public,<sup>5</sup> and the default should be that recorded ownership information is publicly available. At this time, I cannot think of a good reason to restrict access to the database listing patent owners or require users to register for an account. The current USPTO database is open to search and that works well in my experience.

**8. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?**

The Pride in Patent Ownership Act promises to reduce burdens, costs, and inefficiencies U.S. small businesses face due to a lack of transparency in the patent system, and it stands to alleviate harms caused by abusive assertion practices. And while companies, including startups, are accustomed to navigating legal and regulatory hurdles—including registering and disclosing business information<sup>6</sup>—Engine does hear from founders about unclear or onerous requirements that make their jobs harder. Startups in our network have not complained that recording patent assignments is burdensome, but as this bill seeks to encourage more timely and accurate recording, I appreciate your attention to making sure startups and small businesses have what they need to comply and be transparent.

In thinking about the compliance burdens associated with the Pride in Patent Ownership Act, it is important to remember that attorneys are routinely the correspondents on these submissions to

<sup>4</sup> See generally Rives Testimony at 3-7.

<sup>5</sup> See, e.g., Abby Rives, Opinion, *Patents Impact Everyone. Our Policies Need to Reflect That*, Technical.ly (June 6, 2022), <https://technical.ly/civic-news/engine-patent-quality-week-policy/>.

<sup>6</sup> E.g., *Register Your Business*, SBA.gov, <https://www.sba.gov/business-guide/launch-your-business/register-your-business> (last visited Sept. 7, 2022) (summarizing select federal and state business registrations).

the USPTO and the bill is encouraging patent owners to record agreements they already entered into. If a patent owner (of any size) is selling a patent, being acquired, creating a subsidiary company to hold certain patent rights, etc.—it has to draft, negotiate, and sign all the necessary contracts, and all of that happens before there is anything to record with the USPTO. The last step—uploading those documents with the USPTO—is not the hard part. In preparation for this hearing, I went through the steps of submitting a change of patent ownership on the USPTO’s online portal and the process took less than seven minutes.<sup>7</sup>

To help startups and small businesses comply with the Pride in Patent Ownership Act, I would suggest education to attorneys to make sure they understand what has to be recorded and when. This should include education to the patent bar—including attorneys and any clinics that work with the Patent Pro Bono Program—and patent agents, so they know to submit the relevant information. This education should reach beyond the patent bar, though, and include attorneys and paralegals who do transactional work for startups and small businesses—like in-house counsel, those that handle mergers and acquisitions, technology transfer specialists, firms that routinely work with startups and small businesses, law clinics that work with entrepreneurs, general business pro bono clinics, or investors’ counsel. Those individuals may handle agreements where patent rights are transferred and be best situated to record them.

Relatedly, here again, it is important that patent owners have clear and consistent definitions for what interests have to be recorded. Depending on what has to be recorded, the USPTO should also consider plain language FAQs for patent owners who do not have a counsel working with them on patent prosecution or transactions. Those FAQs could define the rights that have to be recorded, provide templates of forms, and direct readers to the Electronic Patent Assignment System (EPAS).

The USPTO could also send periodic reminders to patent owners encouraging them to register any change in ownership.

Finally, this is another area where a different bill—the Unleashing America’s Innovators Act (S.2773)—could help, by creating more touch-points between the USPTO and innovation ecosystems across the country. If the USPTO has more direct connections with innovators, it can use those relationships to remind patent owners to record ownership interests.

**9. Can you provide some specific examples of the various types of interests affecting patents that the USPTO should consider?**

The Pride in Patent Ownership Act would make a valuable contribution, increasing transparency in the U.S. patent system so that startups, small businesses, and the public could more readily determine who owns patents. Additional information—for example, information that implicates

<sup>7</sup> *Patents Assignments: Change & Search Ownership*, USPTO, <https://www.uspto.gov/patents/maintain/patents-assignments-change-search-ownership> (last visited Sept. 5, 2022).

standing to sue, licenses, and litigation funding—can also be valuable; although, encouraging or mandating disclosure of some information should be balanced against competing interests.

First, at the very least, policymakers should consider recordation of patent ownership and assignments. And given the role shell companies currently play in frivolous or abusive patent assertion, recording parent companies would also help solve—or at least curtail—a very real problem in our patent system.<sup>8</sup>

Second, information that implicates a patent owner’s standing to sue is critical in every suit. A company can own a patent but not have standing to assert it. For example, if a company granted a security interest in its patent portfolio, it may sacrifice standing to sue for infringement.<sup>9</sup> Both parties and the court need to know whether the plaintiff has standing, and everyone benefits when discrepancies are resolved expeditiously. Otherwise, parties and courts can waste months—or years—on costly litigation and discovery.<sup>10</sup> To my knowledge, many entities already record security interests with the USPTO, but when some patent owners try to conceal this information it can fuel abuse of the system and drive-up wasteful legal spending. Encouraging more transparency about these interests would provide useful information to litigants and the public.

Third, information about patent licenses can be important in assessing things like infringement liability, standing, and valuation. For example, the details of a license can tell an accused infringer if its work is actually authorized because a business partner took a license that covers the alleged infringement.<sup>11</sup> Licensing agreements can also create or defeat standing to assert patents or recover damages. For example, exclusive licensees may have standing to sue,<sup>12</sup> while a licensee’s failure to mark (and contractual obligations around marking) can dictate damages for infringement.<sup>13</sup> Licenses can also tell us about the actual and purported value of a patent—which can be important not just in litigation, not just to accused infringers, but to the broader public.

<sup>8</sup> See, e.g., Rives Testimony at 3-7.

<sup>9</sup> See, e.g., Richard M. Assmus et al., *Value and Risk Considerations for Intellectual Property Collateral*, Am. Bar Assoc. (July 6, 2022), [https://www.americanbar.org/groups/intellectual\\_property\\_law/publications/landslide/2021-22/june-july/value-and-risk-considerations-intellectual-property-collateral/](https://www.americanbar.org/groups/intellectual_property_law/publications/landslide/2021-22/june-july/value-and-risk-considerations-intellectual-property-collateral/) (discussing language in security agreements that could transfer ownership to a lender); see also *id.* at n.24 (discussing cases where Uniloc lacked standing because it failed to meet revenue targets in an agreement with Fortress Credit Co., which triggered Fortress’s rights to sublicense the patents in question and thereby deprived Uniloc of exclusive rights in the patent necessary for standing).

<sup>10</sup> See, e.g., *id.* at n.24 (citing cases).

<sup>11</sup> See, e.g., *TransCore, LP v. Elec. Transaction Consultants Corp.*, 563 F.3d 1271 (Fed. Cir. 2009) (finding implied license to accused infringer where patent owner granted its supplier rights to sell).

<sup>12</sup> E.g., John Haynes & Lindsay C. Church, *Drafting Exclusive Patent Licenses and Standing Considerations*, Bloomberg Law (Feb. 13, 2018), <https://news.bloomberglaw.com/ip-law/drafting-exclusive-patent-licenses-and-standing-considerations>; John C. Paul et al., *Exclusive Licensee Without All Substantial Rights Can Independently Sue Patent Owner for Infringement*, Finnegan (Apr. 12, 2016), <https://www.finnegan.com/en/insights/articles/exclusive-licensee-without-all-substantial-rights-can.html>.

<sup>13</sup> E.g., Philippe J.C. Signore, *Patentees must Exercise Reasonable Efforts to Ensure that Licensees are Complying with the Marking Statute*, Oblon (Dec. 12, 2017), <https://www.oblon.com/publications/patentees-must-exercise-reasonable-efforts-to-ensure-that-licensees-are-complying-with-the-marking-statute>.

Indeed, in a case where Uniloc lacked standing to sue (and standing hinged on the amount it earned through license agreements), Judge Alsup recently reflected:

Because [a patentee's] rights flow directly from this government-conferred power to exclude, the public in turn has a strong interest in knowing the full extent of the terms and conditions involved in [the patentee's] exercise of its patent rights and in seeing the extent to which [the patentee's] exercise of the government grant affects commerce.

The impact of a patent on commerce is an important consideration of public interest. One consideration is the issue of marking by licensees. Another is recognition of the validity (or not) of the inventions. Another is in setting a reasonable royalty. In the latter context, patent holders tend to demand in litigation a vastly bloated figure in “reasonably royalties” compared to what they have earned in actual licenses of the same or comparable patents. There is a public need to police this litigation gimmick via more public access. We should never forget that every license has force and effect only because, in the first place, a patent constitutes a public grant of exclusive rights.<sup>14</sup>

And:

The public has an interest in inspecting the valuation of the patent rights revealed by Uniloc’s transactions, particularly given secrecy so often plays to the patentee’s advantage in forcing bloated royalties. It may even be that disclosure of prior patent licenses better illuminates parties’ positions, offering up-front cost evaluations of potentially infringing conduct and driving license values to a more accurate representation of the technological value of the patent. In addition, the patent license values here may inform reasonable royalties in other courts.<sup>15</sup>

That said, there are also countervailing reasons that parties might want to maintain certain patent licensing details as confidential business information. Deciding if, when, and how patent licenses are publicly disclosed (and subject to what redactions) requires balancing the value of disclosure with legitimate desires for secrecy.

Fourth, there is a growing need for better information about who is paying for, controlling, and reaping financial benefits from patent litigation. This helps parties and courts, for example, to

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<sup>14</sup> *Uniloc 2017 LLC v. Apple Inc.*, No. C 18-00360 WHA, 2019 WL 2009318, at \*1 (N.D. Cal. May 7, 2019), *aff’d in part, vacated in part, remanded*, 964 F.3d 1351 (Fed. Cir. 2020).

<sup>15</sup> *Uniloc USA, Inc. v. Apple, Inc.*, 508 F. Supp. 3d 550, 555 (N.D. Cal. 2020), *vacated and remanded*, 25 F.4th 1018 (Fed. Cir. 2022). *See also Uniloc USA, Inc. v. Apple, Inc.*, 508 F. Supp. 3d 550, 552 (N.D. Cal. 2020) (citing order concluding Uniloc lacked standing to sue); *Uniloc 2017 LLC v. Apple, Inc.*, 964 F.3d 1351, 1354-57 (Fed. Cir. 2020) (discussing procedural history).



understand conflicts of interest, investigate standing, and approach settlement.<sup>16</sup> Importantly, too, when wealthy entities can provide financial backing for patent assertion without revealing their identity, it fuels some problematic practices in the patent system.<sup>17</sup> Knowing more about litigation finance is valuable, although this might not be the sort of information that is registered with the USPTO, and instead disclosed at the time of and in the context of litigation or assertion.

**10. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?**

The Pride in Patent Ownership Act would make a very valuable contribution of encouraging third parties to record timely, accurate information with the agency, so the bill itself would reduce errors in recordation. Beyond that, the agency should also ensure clear and consistent definitions for what needs to be recorded and continue to educate patent owners and attorneys.<sup>18</sup> However, I am not familiar enough with how the agency processes and organizes this information, on the back end, to provide suggestions in that regard.

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<sup>16</sup> E.g., Kevin M. Lewis, Cong. Res. Serv., LSB10145, *Following the Money: Should Federal Law Require Litigants to Disclose Litigation Funding Agreements?* (2018) (discussing history and perspectives on litigation finance and associated disclosures); Marla Decker, *Litigation Funding Disclosure in Delaware: An Emerging Standard?*, *Above the Law* (May 25, 2022), <https://abovethelaw.com/2022/05/litigation-funding-disclosure-in-delaware-emerging-standard/> (similar).

<sup>17</sup> E.g., Rives Testimony at 4-5.

<sup>18</sup> *Supra* response to question 8.

**Senator Marsha Blackburn**  
**Questions for the Record to Abigail Rives**  
**IP Counsel, Engine**

- 1. Intellectual property theft continues to be a problem for our innovative industries. Is IP theft a major issue for your company and organization? What impact has it had on the businesses you represent?**

A prevalent concern Engine hears from high-tech startups revolves around how low-quality patents can deprive them of opportunities to innovate. For example, after one founder launched her product, established her company, and published several papers about her work, another person came behind her and filed a patent on the product.<sup>1</sup> That patent (which claims things already known and sold in the U.S.) puts the founder in a precarious situation—the costs of canceling the invalid claims are out of reach, but they create questions about whether the founder can continue her work.

- 2. Does the current lack of transparency and inability to track U.S. patent ownership aid intellectual property theft by foreign entities such as China? If so, how would tracking patent ownership alleviate the issue?**

Given the territorial features of patent systems across the globe, tracking ownership of U.S. patents impacts innovation, manufacturing, and sales in this country. That ownership data would likely have less bearing on activities outside the U.S.

That said, in terms of the Pride in Patent Ownership Act, understanding foreign ownership of U.S. patents could alleviate related concerns. For example, during the hearing you asked about one company, Huawei, and its involvement in the U.S. patent system and the approximate number of patents it holds.<sup>2</sup> Without accurate recording of who owns U.S. patents, it is difficult—if not impossible—to know. But if this bill passes, and companies have an incentive to record ownership, then it would be easier to search for which patents (and how many patents) a company, including a foreign company, owns. This is especially important if you want to understand whether any foreign companies hold U.S. patents that are improperly standing in the way of domestic innovators and entrepreneurs.

<sup>1</sup> *What We Heard from Startups this Patent Quality Week*, Engine (June 10, 2022), <https://www.engine.is/news/category/what-we-heard-from-startups-this-patent-quality-week>; Jie Qi, *Crowdfunding Backer Patented my Project*, Patent Pandas (Nov. 29, 2018), <https://patentpandas.org/stories/crowdfunding-backer-patented-my-project>.

<sup>2</sup> *Pride in Patent Ownership: The Value of Knowing Who Owns a Patent*, Hearing Before the Subcomm. On Intellectual Prop. Of the S. Comm. On the Judiciary, 117th Congress at 1:09:39 (2021) (statement of Sen. Blackburn), <https://www.judiciary.senate.gov/meetings/pride-in-patent-ownership-the-value-of-knowing-who-owns-a-patent>.

A recent patent assertion illustrates how these issues can come up in practice. In 2019, Huawei asserted more than 200 patents against Verizon, seeking more than \$1 billion in licensing fees.<sup>3</sup> If any of those Huawei patent claims were invalid—and some of them were<sup>4</sup>—or if the company could threaten Verizon with an injunction based on trivial or non-infringing features, that would only hurt domestic innovation and access to technology.<sup>5</sup>

Knowing more about patent ownership can also aid Congress in shaping innovation policy.<sup>6</sup> For example, when policymakers look to U.S. patent counts as a proxy for domestic innovation, they may be inadvertently attributing patents issued to foreign inventors and foreign companies as evidence of domestic R&D.<sup>7</sup> And that could lead to anomalous results, with policies proposed with an eye toward bolstering domestic R&D, but the end result is just increasing the number of patents issued to foreign inventors to reward R&D performed outside the U.S.

**3. Previous efforts by the USPTO to establish ownership transparency rules have received some criticism about the cost and complexity of compliance and some privacy concerns. Does the Pride in Patent Ownership Act by Senators Leahy and Tillis address any of those concerns?**

I was not directly involved in any of those previous efforts, but I am aware of certain past criticisms, and the Pride in Patent Ownership Act does address them.<sup>8</sup>

- **Timing:** Previous efforts have been criticized over the timing of disclosures.<sup>9</sup> For example, under one proposal patent owners would update ownership information when they pay maintenance fees, but that would create loopholes when ownership information might change (often) between payment of fees but never be recorded. Similarly, this proposal would have required patent owners to make updates when they paid fees, even if there had been no change in ownership.<sup>10</sup> Other proposals would have tied disclosure requirements to litigation, so that patent owners would only update information when

<sup>3</sup> Charles Duan, *Do Patents Protect National Security?*, Lawfare (July 12, 2019), <https://www.lawfareblog.com/do-patents-protect-national-security>.

<sup>4</sup> E.g., *Verizon Bus. Network Servs. Inc. v. Huawei Techs. Co.*, IPR2020-01141, Paper 31 (Jan. 11, 2022); *Verizon Bus. Network Servs., Inc. v. Huawei Techs. Co.*, IPR2020-01079, Paper 33 (Jan. 11, 2022); *Verizon Bus. Network Servs. Inc. v. Huawei Techs. Co.*, IPR2020-01080, Paper 39 (Jan. 12, 2022).

<sup>5</sup> Based on the patent office's existing data, Huawei is among the six most active companies when it comes to applying for U.S. patents related to 5G. Mary Critchfield et al., *Patenting Activity by Companies Developing 5G*, U.S. Pat. and Trademark Off. 3 (Feb. 2022), <https://www.uspto.gov/sites/default/files/documents/USPTO-5G-PatentActivityReport-Feb2022.pdf>.

<sup>6</sup> See, e.g., Rives Testimony at 7.

<sup>7</sup> Abby Rives, *A Brief Case Study: The Shortcomings of Counting Patents by Country to Inform Patent Eligibility in the U.S.*, Medium (Oct. 12, 2021), <https://engineadvocacyfoundation.medium.com/a-brief-case-study-in-policy-relevant-empirical-assessments-the-shortcomings-of-counting-patent-444ac713195f>.

<sup>8</sup> See generally, e.g., Nathan P. Anderson, Note, *Striking a Balance: The Pursuit of Transparent Patent Ownership*, 30 Berkeley Tech. L.J. 395 (2015) (summarizing select legislative and regulatory efforts to enhance transparency).

<sup>9</sup> See, e.g., *id.* at 419-20, 426-27.

<sup>10</sup> See, e.g., *id.*

they filed suit,<sup>11</sup> which missed pre-litigation benefits like improving the licensing market and addressing demand letter activity.

The Pride in Patent Ownership Act encourages parties to register information within 90 days of the relevant transaction, which avoids those concerns. It correlates the disclosure to the transfer of ownership—so the information can be useful in licensing, demand letter responses, and litigation—without inviting large gaps in the record. While there may be other information about patents that could be disclosed at other times, in my view the current bill addresses previous concerns about timing.

- Clear definitions: Inventors, patent owners, assignors, assignees, investors, and others involved in patent transfers need to know what to record with the U.S. Patent and Trademark Office (USPTO) and when. Previous efforts were criticized for vague definitions.<sup>12</sup> If the definitions are ambiguous, it creates uncertainty and expense. We do not want a startup to have to hire teams of lawyers just to assess whether a given transaction is the type that needs to be recorded. The Pride in Patent Ownership Act delegates the USPTO Director to finalize the ultimate definitions, and I am optimistic that she will embark on a thoughtful and deliberate process to hear from all stakeholders about what should be recorded and craft rules that provide businesses the certainty they need.
  - Scope: Previous efforts to increase transparency have also been criticized for requiring parties to disclose not enough or too much information about patent ownership and control.<sup>13</sup> In my view, the Pride in Patent Ownership Act strikes a reasonable balance. There is certainly all kinds of information, beyond patent ownership and assignment, that would be useful for startups to know—for example, information about licenses and settlements, information about other financial interests in the patent, or information about who is providing financial support for and exercising control over patent litigation. Policymakers may want to revisit the question in several years to see if the bill is working as intended or whether patent owners should record more information at other times.
- 4. There is an idea that a registry of patent ownership interests can benefit patent licensees by creating transparency about who owns what patents. Despite concerns about compliance and privacy, could tracking patent ownership information ease commerce and perhaps avoid some litigation over licenses and rights?**

Yes. Tracking patent ownership information can, e.g., reduce transaction costs and improve the market for patent licensing, equip startups with information to more efficiently respond to (even frivolous) accusations of infringement, curtail costly litigation and discovery over threshold

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<sup>11</sup> See, e.g., *id.* at 430.

<sup>12</sup> See, e.g., *id.* at 414-15 (referring to terms in a previous rulemaking that were accused of being too vague).

<sup>13</sup> See, e.g., *id.* at 424-26.



questions of standing and licensing, and discourage abusive patent practices that drain resources from domestic innovation and the U.S. economy.

**Written Questions for Mr. Allon Stabinsky  
Submitted by Senator Patrick Leahy  
October 26, 2021**

1. You mentioned in your testimony that the lack of patent ownership transparency poses a risk to America's economic security. Companies in other countries can buy U.S. patents, without the public knowing what happened.

- a. **When you have a massive judgment levied against you as a manufacturer, by a foreign entity that does not produce any products, does that cost get passed along to consumers? Is that effectively a hidden tax on American consumers?**

**Defending against patent litigation and the risk of massive legal judgments requires substantial resources that could be directed towards hiring employees, developing innovative new products, or additional manufacturing capabilities. This risk directly impacts operations, research and development, competitiveness, costs, and profitability. With only a few employees and limited operations, patent assertion entities – often backed by investment firms – do not have discovery obligations in litigation as onerous as defendants. Overall, the burden and cost of litigation are generally much greater on defendants than NPEs for a host of reasons; this greater cost is one main reason most defendants settle as a cost of doing business rather than attempt to vindicate their rights in court. The damages awards or settlement payments that NPEs ultimately receive do not get invested in research and development or innovation.**

2. If you are shown a patent that covers a new product you want to make, I imagine you would want to know some information about that patent.
  - a. **Will you please describe the steps you would have to take under current law to find out who to approach about licensing the patent? How would you figure out who is making decisions and who stands to gain from a license to the patent?**

**It can be difficult to determine who owns a patent, or who controls or funds a patent assertion/litigation entity. Often, research to determine corporate structures, and analysis of corporate formation documents and patent assignment records are necessary to determine who owns a specific patent being actively asserted in patent assertions and litigation. At times, it is only possible to get this information through discovery in litigation, and even then it is often unclear whether the relevant information has been fully disclosed. *See, e.g., VLSI Technology LLC v. Intel Corp.*, 18-cv-966, Dkt. 975 (D. Del. Aug. 1, 2022) (staying litigation due to plaintiff's non-compliance with Standing Order requiring disclosure of owners, members, and partners of a party).**

- b. **Have you experienced a situation where you found out the owner of a patent only to discover that you already had a license to the patent?**

**Yes, situations have occurred where a party acquires patents and asserts**

**them against an operating company despite the fact that the operating company holds a license from the previous owner. This is an area where transparency in the chain of ownership would be helpful.**

3. Some argue that, while transparency in patent ownership broadly makes sense, it is overly burdensome to have to record when a patent is transferred internally within a company, and any transparency rule should excuse intra-company transfers.
  - a. **Will you briefly describe the compliance requirements, for example with the Securities and Exchange Commission, when a company sets up a new subsidiary to hold its patents, and how much more work for a company's compliance officers will be added by having to record the transfer with the U.S. Patent and Trademark Office?**

A parent company that establishes an intellectual property holding company as a wholly-owned subsidiary will transfer ownership of its patent portfolio to this new entity, which then controls the patent assets. The parent company must approve the creation of the IP holding company and make any required filings with the SEC. Recording the transfer of a patent with the U.S. Patent and Trademark Office costs approximately \$150 and adds approximately ½ hour of work, as compared to the average cost of filing a patent application of approximately \$8,000 to \$10,000 and lifetime costs of approximately \$20,000 to \$30,000.

- b. **Why might the public have an interest in intra-company transfers of patents, whether they are subsidiaries within the United States or in different countries?**

Patent assertion entities often use an intricate web of shell companies and secret agreements to conceal their activities. The assertion of patents by these NPEs often involves complex corporate structures used to obscure financial interests in the litigation. It is common in tech patent litigation for a company to be repeatedly attacked by different shell companies set up by a single beneficial owner or investor to hold discrete sets of patents. Lack of transparency often obscures who the true opponent is. Fortress Investment Group, Softbank, and IPEdge have used such structures in patent assertion campaigns. Defendants and fact finders are often unaware of who is behind such assertions. Enhanced transparency would boost accountability, reduce the incentive for abusive litigation, and allow policymakers to assess the scope of the problem as well as the entities behind it so that they could develop effective public policy responses.

**Senator Thom Tillis**  
**Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property**

**Questions for the Record**  
**Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021**

**Allon Stabiusky, Senior Vice President**  
**Chief Deputy General Counsel, Intel Legal Department**

1. Please share your thoughts on our bill, Pride in Patent Ownership.

The Pride in Patent Ownership Act is an important and long overdue first step, and it will go a long way towards helping us identify the scope of the problem of abuses of our legal system with respect to patents. Our economic growth and national security are threatened by professional litigants who hold secret limited monopolies and are only interested in patent litigation as an investment class.

2. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?

While the Pride in Patent Ownership Act does not solve all problems posed by abusive patent litigation and third-party litigation funding, it's an important first step. Addressing third-party litigation funders that treat U.S. courts as financial commodities, use the risk and cost of litigation to extort settlements from operating companies who can't afford to vindicate their rights in court, and seek excessive damages awards that invite this abuse is equally important. Disclosure in litigation is also important. Although some courts have local rules about such disclosure, more uniform and widespread rules would be extremely beneficial. Finally, monetization of judgments in patent cases using judgment preservation insurance allows plaintiffs to profit even if the judgment is overturned on appeal. I stand ready to work with you in addressing these issues.

3. What are your views on requiring mandatory reporting of certain ownership interests at the USPTO?

A requirement to report certain ownership interests to the USPTO would shine a light on the true nature of most patent transfers and assertions in the technology sector today. This reporting requirement would illuminate the predominance of investment-based patent transfers that have nothing to do with operating innovators protecting their intellectual property from infringement – the intended use of these remedies. It is common practice to use ambiguously named shell companies, often with names similar to historical operating companies, in an attempt to use those companies' remaining good will. This practice also conceals the fact that the ultimate parent company is a hedge fund using a specific patent infringement litigation as an asset class. Policymakers would gain important insights from these reporting requirements as to the effects these practices have on national security and economic growth.

4. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?

Yes. As noted above, there are important public policy reasons for requiring such transparency. But even from a business perspective, it is important as it promotes efficiency in the system. For example, non-practicing entities frequently use distinct entities in their lawsuits, which among other things, allows them to hide any relation to a former patent owner from which the defendant might have a license to use the disputed technology (in which case such license would vitiate their suit). Disclosure of the parent company and the chain of custody of the patent would promote efficiency and fairness in allowing the

defendant and the courts to ascertain from the outset whether they held a license to the disputed technology.

5. Are there some interests that should be recorded, but not public?

There are potentially some national security-related instances in which the U.S. government may prefer that some interests not be recorded publicly. Such instances would likely be extremely rare and involve classified or other sensitive technology.

6. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?

Yes.

7. Would it matter if ownership records would have to be kept up to date at the patent office, but not disclosed publicly, or disclosed with certain restrictions, like registering an account?

Patent rights preclude the public from making, using, or selling the invention in question; therefore, the default position should be that the public has a right to know who has an ownership interest in the technology in question. If the patent office requires full disclosure of the invention as part of the quid pro quo for obtaining patent protection, certainly disclosure of beneficial ownership should be required as well.

8. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?

Complying with the requirements of this bill would impose only modest costs on patent owners. Recording the transfer of a patent with the U.S. Patent and Trademark Office costs approximately \$150 and adds approximately ½ hour of work, as compared to the average cost of filing a patent application of approximately \$8,000 to \$10,000 and lifetime costs of approximately \$20,000 to \$30,000.

9. Can you provide some specific examples of the various types of interests affecting patents that the USPTO should consider?

The definition of ownership interests should be construed broadly, to at least include entities which can direct or approve litigation involving the patent.

10. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

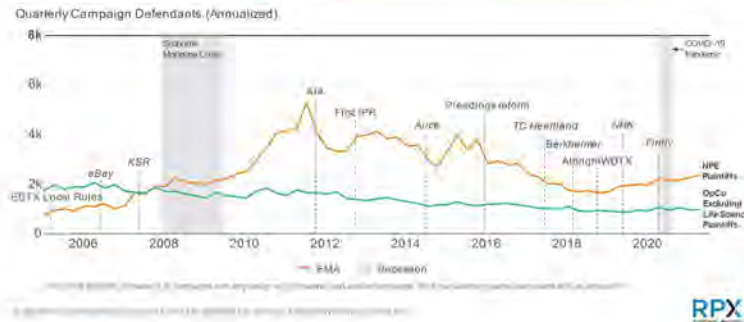
Meaningful penalties for non-compliance would likely be effective in ensuring interested parties keep recordations up to date. In addition, a requirement to keep recordation information current in order to have standing to sue would likely be highly effective.

**Senator Marsha Blackburn**  
**Questions for the Record to Allon Stabinsky**  
**Chief Deputy General Counsel, Intel**

1. Intellectual property theft continues to be a problem for our innovative industries. Is IP theft a major issue for your company and organization? What impact has it had on the businesses you represent?

As a company with innovation at its core, the intellectual property that underlies our innovation is central to our business. By threatening competitiveness, IP theft creates significant risk for Intel, and we spend considerable resources guarding against it. Much more predominant than IP theft today, however, is the misuse of the U.S. patent litigation system by investors to extort settlements and press excessive damages demands on successful contributors to the economy. The rise of hedge funds and other financial entities that aggregate low-quality patents and use them to sue U.S. operating companies, using U.S. courts as a financial commodity rather than a source of justice, now accounts for twice the litigation activity of competitor-to-competitor litigation to address IP misappropriation. The resources technology operating companies spend on combatting this rising scourge would be better spent on paying employees and building facilities to develop the next generation of microchips.

**NPE litigation has been more responsive to legislative and judicial changes and reforms**



2. Does the current lack of transparency and inability to track U.S. patent ownership aid intellectual property theft by foreign entities such as China? If so, how would tracking patent ownership alleviate the issue?

Currently, it is impossible for the American public to know the true owner of a patent. This lack of transparency leaves America vulnerable, exposing strategic U.S. industries to economic and national security risks from foreign actors. Many foreign actors are turning to U.S. patent litigation and assertions as an investment vehicle. Intel's current litigation campaign against Softbank of Japan's affiliate Fortress, is being prosecuted by investment funds owned by undisclosed sovereign wealth funds (among other investors). In the past, Intel has also been forced to defend itself from patent cases filed by a patent fund sponsored by the Japanese government, IP Bridge, as well as from patent cases from corporate entities associated with Magnetar Capital, a hedge fund headquartered in Evanston, Illinois. Transparency in ownership would be an important first step to identifying the scope of this problem and closing the knowledge gap. Once we know who the real parties in interest are in patent litigation, we can hold the entities behind them accountable.

3. There is an idea that a registry of patent ownership interests can benefit patent licensees by creating transparency about who owns what patents. Despite concerns about compliance and privacy, could tracking patent ownership information ease commerce and perhaps avoid some litigation over licenses and rights?

A requirement to report certain ownership interests to the USPTO would be helpful to understand who is behind the patents that are being asserted in litigation or licensing demands. This transparency would dramatically reduce the incentive to abuse the legal system through meritless patent infringement litigation. Free of this burden, operating companies would be able to focus on the business of innovation, which would benefit the entire U.S. economy. Transparency would also be helpful to policymakers in identifying inaccuracies about reforms allegedly hurting "innovators" or "small investors." The reality of what entities are active in this space pursuing operating companies in the technology industry is much different. These important insights would also inform U.S. policymakers regarding implications for national security and economic growth.

**Prepared Opening Remarks  
For Senator Thom Tillis (R-N.C.)  
Ranking Member  
Senate Judiciary Committee  
Subcommittee on Intellectual Property  
For a hearing entitled  
*Pride in Patent Ownership:  
The Value of Knowing Who Owns a Patent*  
October 19, 2021**

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Mr. Chairman, thank you for holding today's hearing on patent ownership. This is a very important topic and I appreciate your leadership in this area and I'm glad to be your partner on these efforts.

Like the Chairman, I'm committed to increasing transparency in our nation's intellectual property system. Today's hearing focuses on an essential piece of that discussion: ensuring the public knows who owns a patent.

Before turning it over to the real stars of today's hearing—our witnesses—I want to make a few quick but important points.

I have heard many reasons why having current, accurate, and transparent patent ownership records makes sense. Here are a few: good ownership data provides **clarity** in marketplace transactions; it provides necessary **context** to assess risks and understand how patents are being used; it can **create value** by helping to identify potential collaborators; and it can **discourage bad actors** by creating transparency and accountability surrounding demand letters, litigation, or other activities.



I have also heard about the burdens and costs that mandatory disclosures could pose to patent owners – and I take these concerns seriously.

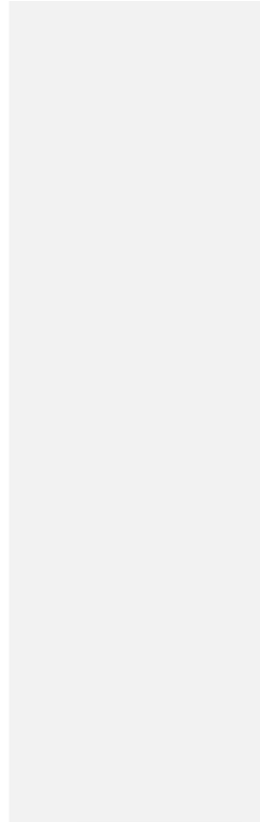
It is also important to acknowledge the strong public interest in our patent system. The patent system represents an exchange between patent holders, who are granted exclusivity, and the public. The public should know who holds these rights.

Bottom line: we need to be able to trust our Patent Office data -- particularly as our economy relies so heavily on patents and other IP rights. It doesn't make sense to require inventors and investors to waste resources navigating the patent system instead of developing new technologies, discovering new cures, and researching new frontiers.

Nor does it make sense to permit entities with massive patent portfolios to not disclose those rights.

This is why I was glad we recently introduced the Pride in Patent Ownership Act.

This bipartisan legislation authorizes the USPTO to determine what patent rights and interests *must* be recorded within 90 days.



It won't change the patent's validity. The Patent Office will have the opportunity to hear from the public and appropriately tailor the interests that must be recorded.

The bill also requires disclosure of government funding. This is important not only to understand how China and other foreign governments may be manipulating and influencing our patent system, but also to track and develop policies surrounding our own R&D funding activities.

I'm hopeful we can quickly markup this commonsense legislation and get it signed into law.

I'm interested in hearing from today's witnesses about their views on this legislation or any other efforts we can take, no matter how big or small, to increase transparency in patent ownership system. Thank you all for being here today, and I look forward to your testimony.

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