



**IN THE MATTER OF REQUEST FOR COMMENTS REGARDING CHANGES TO  
REQUIRE IDENTIFICATION OF ATTRIBUTABLE OWNER**

**Docket No. PTO-P-2013-0040**

**COMMENTS OF THE ELECTRONIC FRONTIER FOUNDATION**

The Electronic Frontier Foundation (“EFF”) welcomes this opportunity to respond to the Request by the United States Patent and Trademark Office (“PTO”) for Comments Regarding Changes to Require Identification of Attributable Owner, Docket No. PTO-P-2013-0040, published January 24, 2014.

EFF is a nonprofit civil liberties organization that has worked for more than 20 years to protect consumer interests, innovation, and free expression in the digital world. EFF and its more than 29,000 dues-paying members have a strong interest in helping the courts and policy-makers in striking the appropriate balance between intellectual property and the public interest. As an established advocate for consumers and innovators, EFF has a perspective to share that might not be represented by other persons and entities who submit comments in this matter, where such other commentators do not speak directly for the interests of consumers or the public interest generally.

**I. Accurate, up-to-date, and searchable patent ownership records will strongly serve the public interest.**

EFF applauds the PTO for working to improve transparency within the patent system. People not familiar with the detailed workings of the patent system are generally surprised to learn that accurate public ownership records do not exist. As Congressman Ted Deutch of Florida recently stated: “The process of uncovering the ultimate owner of a patent can be truly

burdensome. During my career in real estate law, I would have found it appalling if the title for property was obscured from the public instead being of up-to-date and easily searchable.”<sup>1</sup>

There are many reasons why transparency regarding patent ownership serves the public interest. A well-functioning patent system should allow an entrepreneur to investigate her competitors’ patent portfolios and make decisions about whether to ignore, seek a license, or design around those patents. If the public doesn’t know who actually owns patents, it is impossible to do this. Similarly, when a company is sued or accused of infringement, it should be able to find out what other patents its opponent owns. That information should lead to more efficient and fair negotiations regarding settlements and licenses. Accurate patent data will also help companies make informed decisions about whether to enter a particular technology area in the first place.

Just as transparency serves the public interest, secrecy causes affirmative harm. This is especially true when companies have opportunistic motives for secrecy about patent ownership. For example, a patent assertion entity (PAE) may prefer to obscure its ownership of a particular patent because that knowledge could lead its potential targets to design around the patent or even leave the field entirely. The PAE may prefer that alleged infringers continue to make and sell accused products and increase potential damages.<sup>2</sup> Indeed, in approximately one third of patent cases brought by PAEs, the plaintiff is not the owner of record on the day the litigation is filed.<sup>3</sup> Similarly, both PAEs and operating companies may wish to hide patent ownership to protect their patents from post grant review, reexamination, or inter partes review.

As the recipients of a government-granted benefit, patentees should bear the modest burden of recording assignment information. While this might increase the cost of applying for

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<sup>1</sup> See <http://teddeutch.house.gov/news/documentsingle.aspx?DocumentID=334519>

<sup>2</sup> See James Bessen et al., *The Private and Social Costs of Patent Trolls*, 3 Regulation 26, 34 (2011-2012) (“Bessen 2011-12”) (noting that inadvertent infringement is essential to the patent troll business model), available at <http://object.cato.org/sites/cato.org/files/serials/files/regulation/2012/5/v34n4-1.pdf>.

<sup>3</sup> Colleen Chien, *The Who Owns What Problem in Patent Law* (Jan. 20, 2013), available at [https://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=1995664](https://papers.ssrn.com/sol3/papers.cfm?abstract_id=1995664)

and maintaining a patent, these costs should not be excessive. Patentees themselves are best placed to know assignment information. And while some reporting might require making a legal judgment (for example, determining whether a company is an ultimate parent entity), the PTO can issue guidance to clarify these questions. In addition, it is likely that the burden of complying with transparency rules will decline over time as patentees develop experience and record keeping systems for complying.

## **II. The PTO should require applicants and patentees to record all patent assignments.**

The proposed rulemaking suggests a reporting system geared to certain checkpoints. Applicants will need to update ownership information: (1) during the pendency of a patent application; (2) at grant; (3) at the time of maintenance fee payments; and (4) if the patent becomes involved in certain post-issuance proceedings at the PTO. While this will be a massive improvement over current records, it is not complete transparency and will not provide information about many important transfers. For example, the current rules would not require a patent owner to report an assignment made shortly after grant. Since a petition for post grant review must be filed within 9 months of the grant, transfers during this period can be critical to the decisions about whether to file for review (suppose, for example, a patent is transferred shortly after issue to a litigious PAE<sup>4</sup> or direct competitor). This crucial information will not be available under the checkpoint system.

The PTO should therefore require recordation of all assignments within 30 days of transfer. By requiring recordation of all assignments, the PTO can also ensure that the full chain of title is available to the public. The full chain of title is important for a number of reasons. For example, a prior owner might have made a RAND commitment with respect to an industry standard. Similarly, prior owners might have licensed the patent to manufacturers, meaning that patent rights are exhausted as to companies down the distribution chain.

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<sup>4</sup> Patents asserted by PAE's in litigation "are three times more likely to have changed hands between issue and enforcement than product company-asserted patents." Brian J. Love, *An Empirical Study of Patent Litigation Timing: Could A Patent Term Reduction Decimate Trolls Without Harming Innovators?*, 161 U. Pa. L. Rev. 1309, 1333 (2013)

The importance of a full chain of title is illustrated by the case of a PAE named Lodsys, LLC. In 2011, Lodsys began suing small application developers alleging that their products infringed a family of patents. In many cases, the accused functionality was provided by Apple or Google. It later emerged that Apple and Google both held a license to the patent because the patent had been owned by a company that was in turn owned by Intellectual Ventures, which had a licensing deal with the two large technology companies.<sup>5</sup> Thus, it is likely that the defendants were protected under the principle of patent exhaustion.<sup>6</sup> Accurate patent ownership records would have helped resolve many of the most important questions facing the defendants in those cases. Currently, defendants may be forced to engage in months or years of expensive litigation simply to uncover prior ownership information.

EFF is also concerned that the proposed definition of attributable owner is under-inclusive. Specifically, the category “ultimate parent entity” will not capture some of the structures that PAEs use to obscure ownership and effective control. For example, it appears that Intellectual Ventures sells patents to shell companies but retains the right to as much as 90% of the ongoing profits associated with these patents.<sup>7</sup> Therefore, the PTO should consider amending the definition of attributable owner to include any party with rights to more than 50% of the profits from a patent.

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<sup>5</sup> Wireless Goodness, *Is Intellectual Ventures behind Apple iOS in-app purchase lawsuit threats? We think so.*, May 15, 2011, available at <http://www.wirelessgoodness.com/2011/05/15/is-intellectual-ventures-behind-apple-ios-in-app-purchase-lawsuit-threats-we-think-so/>

<sup>6</sup> Unfortunately, Lodsys has been able to evade judgment on this exhaustion issue, and the merits of its infringement assertions, by tactically settling its cases shortly before a final decision. See Daniel Nazer, *Patent Troll Settles For Nothing To Avoid Trial*, October 2, 2013, available at <https://www.eff.org/deeplinks/2013/10/patent-troll-lodsys-settles-nothing-avoid-trial>

<sup>7</sup> See Todd Bishop, *This American Life: Intellectual Ventures got 90% of ongoing profits even after selling patent*, GeekWire, June 1, 2013, available at <http://www.geekwire.com/2013/american-life-intellectual-ventures-90-backend-cut-selling-patent/>.

### **III. Conclusion**

EFF again thanks the PTO for the opportunity to comment on the proposed rules. EFF strongly supports the PTO's efforts to promote transparency, and we believe the proposed rulemaking is a very promising step. But the PTO can and should do more. We urge the PTO to require all transfers of patent ownership to be recorded within 30 days of assignment. This will maximize the public benefit of transparency.

Respectfully submitted,

**Electronic Frontier Foundation**

Daniel Nazer

Staff Attorney

Michael Barclay, Reg. No. 32,553

EFF Special Counsel

April 24, 2014