

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Changes to Require Identification of Attributable Owner

Notice of Proposed Rulemaking

Docket No. PTO-P-2013-0040

COMMENTS OF THE INTERNET ASSOCIATION

I. Introduction and Statement of Interest

The Internet Association (“IA”) files these comments in response to the Patent and Trademark Office’s (“PTO’s”) proposed rules to require identification of a patent’s attributable owner during the pendency of a patent application and at specified times during the life of the patent.¹ The IA supports the PTO’s proposed rules, subject to the changes and clarifications discussed below.

The IA is the voice of the Internet economy, representing the interests of America’s leading Internet companies and their global community of users.² IA members hold extensive patent portfolios arising naturally from their substantial investment in research, development, and commercialization of new technologies. At the same time, however, IA members and their customers face an unprecedented barrage of patent assertion and litigation involving the cynical manipulation of patents by private speculators shrouded in webs of secret shadow entities that traffic in poor quality patents (often long abandoned by their respective inventors) to parlay litigation costs into wealth transfers to investors. This growing shadow industry—widely known as “patent trolling”—is so large, so pervasive, its social costs so vast, that it has invoked the collective outrage of the Congress, the Department of Justice, the Federal Trade Commission, leading academics in law, economics and public policy, and even the United States Court of Appeals for the Federal Circuit. The Internet ecosystem is uniquely susceptible to abusive patent litigation given that Internet-related patents are eight times more likely to be asserted than non-Internet related patents.³

¹ Notice of Proposed Rulemaking, *Changes to Require Identification of Attributable Owner*, 79 Fed. Reg. 4105 (Jan. 24, 2014) (“NPRM”).

² The Internet Association represents the world’s leading Internet companies including: Airbnb, Amazon, AOL, eBay, Expedia, Facebook, Gilt, Google, IAC, LinkedIn, Lyft, Monster Worldwide, Netflix, Practice Fusion, Rackspace, reddit, Salesforce.com, SurveyMonkey, TripAdvisor, Twitter, Uber Technologies, Inc., Yelp, Yahoo!, and Zynga.

³ John R. Allison, Emerson H. Tiller, Samantha Zyontz, Tristan Bligh, *Patent Litigation and the Internet*, 2012 Stan. Tech. L. Rev. 1 (2012) at 14, ¶ 28, available at <http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.229.474&rep=rep1&type=pdf>.



The secondary market for patent monetization has matured to the point where patent assertion entities (“PAEs”) – entities that exist solely to acquire, license, and litigate patents – now attract significant investment capital from Wall Street hedge funds, venture capital investors, and operating companies. Often, PAEs and their shadow investors obscure their interest in a patent by litigating through shell companies. This “hidden” ownership introduces inefficiencies into agency proceedings, licensing negotiations, and patent litigation. Hidden ownership information also gives rise to “hybrid PAEs,” otherwise known as patent privateers. As noted by Federal Trade Commission Chairwoman Ramirez, patent privateering “allows operating companies to exploit the lack of transparency in patent ownership to win a tactical advantage in the marketplace that could not be gained with a direct attack” and can “increas[e] licensing fees and further burden[] rivals.”⁴

Accordingly, the IA strongly supports the PTO’s efforts to bring more transparency to the patent system by requiring parties with an attributable ownership interest in a patent to disclose that interest. However, the proposed rules focus primarily on disclosure of attributable ownership information for pending applications. In the IA’s view, this focus is misplaced. There are valid reasons for keeping ownership information for pending applications undisclosed, such as when a company explores possible entry into new markets, or when an intellectual property portfolio is a small part of a large, complex merger or acquisition. By contrast, hidden ownership information for already-issued patents has no clear justification and often results from a strategic decision to gain an unwarranted advantage in litigation or licensing activities. The IA therefore encourages the PTO to refocus its rulemaking on already-issued patents.

Finally, the IA does not support the proposal to allow voluntary disclosure of licensing information. Because most companies treat licensing information as confidential, relying on voluntary submissions alone is unlikely to yield a sufficiently comprehensive database of licensing offer information to be useful. Moreover, PAEs may use selective disclosure of licensing information to gain a litigation advantage.

II. Transparency of Ownership for Already-Issued Patents is Essential to the Administration of the Patent System and an Efficient Market for Clearing Patent Rights

A. Transparency in Agency Proceedings

As the PTO observes in its NPRM, transparent ownership information can facilitate more effective evaluation of patent applications and improve other internal agency processes. For example, knowing a patent’s attributable owners can help determine the scope of prior art or uncover instances of double patenting.⁵ Transparent ownership information can also yield a

⁴ Chairwoman Edith Ramirez at the Computer & Communications Industry Association & American Antitrust Institute Program, *Competition Law & Patent Assertion Entities: What Antitrust Enforcers Can Do*, at 7 (June 20, 2013).

⁵ 79 Fed. Reg. at 4106.



more complete picture of the entire patent system while ensuring that the information that the PTO provides to the public is accurate.

Importantly, transparent ownership information facilitates more effective use and administration of review proceedings at the PTO, including the new *inter partes* and post-grant review proceedings created by the America Invents Act.⁶ In view of the short nine-month time frame to bring a petition for post-grant review, hidden ownership information may keep potentially invalidating public disclosures undiscovered until the deadline for filing the petition has passed. Similarly, a defendant has one year to file a petition for *inter partes* review after the filing of an infringement complaint. In complex patent litigation, accurate ownership information that may lead to other information that would support grounds for invalidity in an *inter partes* review could go undiscovered until after the window to petition for *inter partes* review has passed. Indeed, the time limits for post-grant and *inter partes* review may actually create an incentive for keeping ownership information hidden. Accordingly, the IA strongly supports the proposed rules to require disclosure of ownership information after issuance and, as discussed below, recommends that such information be disclosed more frequently.

B. Transparency in Litigation and Licensing

As observed in the White House's report on patent assertion and U.S. innovation, entities that assert patents to deter rather than promote innovation often use concealed ownership as part of their litigation strategy: "They may hide their identity by creating numerous shell companies and requiring those who settle to sign non-disclosure agreements, making it difficult for defendants to form common defensive strategies (for example, by sharing legal fees rather than settling individually)."⁷ Concealed ownership also can be part of a PAEs' licensing and litigation strategy of "intentionally hid[ing] the existence of their patents until a sector or company [is] using the patented invention without authorization and can be sued for infringement."⁸ Concealing the identity of operating companies makes it less likely that the owner or user of an accused technology will discover relevant patents until they are asserted.

Moreover, obscuring ownership information leads to inefficiencies in patent licensing and litigation, and also distorts the costs of patent licenses and settlements. As detailed in the IA's earlier joint comments in this proceeding, hidden ownership information makes it more difficult to reach a "true" settlement between the alleged infringer and the real party in interest, makes efficient cross-licensing arrangements much more difficult to reach, and increases the

⁶ 35 U.S.C. §§ 311, 321.

⁷ Executive Office of the President, *Patent Assertion and U.S. Innovation*, June 2013, at 4, available at http://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf.

⁸ United States Government Accountability Office, *Intellectual Property: Assessing Factors That Affect Patent Infringement Litigation Could Help Improve Patent Quality*, August 2013, at 31, available at <http://www.gao.gov/assets/660/657103.pdf>.



time, expense, and risk associated with clearing patent rights.⁹ Given the heightened frequency with which patent reassignments now occur, hidden ownership information injects inefficiency and uncertainty throughout patent licensing and litigation. Especially in the heavily litigated field of Internet-related patents, that inefficiency and uncertainty creates a substantial risk and therefore disincentive to develop and exploit new technologies.

III. The Rules Will Improve the Accuracy of Ownership Information, But Need Refinement

At the outset, the IA believes that the proposed rules further an important interest in accurate information regarding granted patents without unduly burdening patent holders. The PTO anticipated implementing a system for electronic uploading and updating of attributable owner information that should ease any burden on patent holders.¹⁰ Concerns that have technological fixes should not determine policy outcomes. Indeed, to fully accomplish the objectives set out in the White House’s objective of “making ‘real party in interest’ the new default,”¹¹ further disclosures and incentives to disclose are required. At the same time, the PTO should consider modifications to its rules to preserve confidentiality where legitimate business purposes require it.

A. The Rules Should Require Updated Ownership Information When the Patent Is Asserted

The proposed rules seek to “reduce the risk of abusive patent litigation by helping the public defend itself against such abusive assertions by providing more information about all the parties that have an interest in patents and patent applications.”¹² As proposed, however, the rules fall short of accomplishing that goal because, outside of review proceedings, updated information for already-issued patents is required only at the time of payment of maintenance fees. These fees are due only at 3.5, 7.5, and 11.5 years into the life of the patent.¹³ With a gap of up to four years between maintenance fee payment, and no further disclosure required after the final payment, it is very likely that the ownership information on hand at the time a patent is asserted will be stale.

⁹ Comments of the Coalition for Patent Fairness and the Internet Association, *Notice of Roundtable on Proposed Requirements for Recordation of Real-Party-in-Interest Information Throughout Pendency of Patent Term*, Docket No. PTO-P-2012-0047, at 6-7 (filed Jan. 25, 2013).

¹⁰ NPRM, 79 Fed. Reg. at 4106.

¹¹ FACT SHEET: White House Task Force on High-Tech Patent Issues, June 4, 2013, available at <http://www.whitehouse.gov/the-press-office/2013/06/04/fact-sheet-white-house-task-force-high-tech-patent-issues>.

¹² NPRM, 79 Fed. Reg. at 4106.

¹³ 37 C.F.R. §1.20.



Legislative proposals to improve patent transparency have recognized this problem and devised a solution to address it. The Innovation Act of 2013, which passed overwhelmingly in the House of Representatives, requires a plaintiff to disclose upon a filing a complaint the ultimate parent entity of any assignee of the patent, as well as any entity that the “plaintiff knows to have a financial interest in the patent or patents at issue or the plaintiff.”¹⁴ The Patent Transparency and Improvements Act currently under consideration in the Senate takes a slightly different approach but similarly recognizes the need for more frequent updating of patent ownership information.¹⁵ In addition, academics who have examined the impact of PAEs on startups and innovation have called for disclosure of real-parties-in-interest in demand letters.¹⁶ Although the Innovation Act does not require this disclosure, it does make disclosure of the ultimate parent entity in demand letters a condition for recovering damages for willful infringement.¹⁷ The PTO has multiple approaches available and should, at a minimum, take steps to require the disclosure of ownership information at the time the infringement complaint is filed. Requiring disclosure at that time imposes no undue burden on the patent owner, particularly when contrasted with the far more extensive production of documents faced by the party defending against a claim of infringement brought by a PAE or shell company.

B. The Rules Should Impose Penalties for Failure to Disclose Attributable Owner Information for Already-Filed Patents

Under the proposed rules, failure to disclose required ownership information can result in abandonment of the patent application. It is less clear, however, what consequences flow from a party’s failure to disclose attributable owner information for a patent that has already been granted. Again, recent legislative proposals may provide some guidance in that case. Failure to disclose required ownership information in the Innovation Act and the Patent Transparency and Improvements Act results in the plaintiff becoming ineligible for increased damages under 35 U.S.C. § 284 or reasonable fees and expenses under 35 U.S.C. § 285 for the time during which the plaintiff was out of compliance. Additionally, the Innovation Act would award to a prevailing defendant the fees and expenses incurred to discover undisclosed ownership information.¹⁸ Litigation-specific penalties for noncompliance are not well suited for other failures to disclose required information, such as when maintenance fees are due or in the course

¹⁴ H.R. 3309, 113th Cong. § 4 (2013).

¹⁵ See S. 1720, 113th Cong. §3 (2013) (requiring updating of patent assignments within three months).

¹⁶ Colleen Chien, *Patent Assertion and Startup Innovation*, Report of the New America Foundation’s Open Technology Institute, September 2013, at 30, *available at* <http://newamerica.net/sites/newamerica.net/files/policydocs/Patent%20Assertion%20and%20Startup%20Innovation.pdf>.

¹⁷ H.R. 3309 § 3.

¹⁸ *Id.* §4; S. 1720 §3.



of a reexamination proceeding. In those cases, a monetary penalty may be more appropriate but there should also be downstream consequences if the patent is later asserted. In all cases, the penalty should provide a substantial disincentive for keeping attributable ownership information hidden in violation of the Office's rules.

C. The Rules Should Allow Optional Confidentiality of Ownership Information for Pending Applications

As discussed above, the primary harms and risks associated with hidden ownership information relate to patents that the PTO has already granted. Secrecy is flatly inconsistent with the core bargain of a property right that is granted and enforced by the government in exchange for disclosure of an invention. Given that patent infringement is a strict liability offense, information that helps put all parties on notice to a patent's existence and ownership promotes a more efficient and equitable patent system. It is unclear what legitimate interest would allow an attributable owner of a patent to keep its interest hidden at the same time that it seeks to benefit from the patent's enforcement.

By contrast, there may be valid reasons for keeping ownership information confidential when a patent application is still pending. For instance, a company may wish to acquire confidentially technology and related pending applications as it explores the possibility of entering a new field or market. Public disclosure of that exploration could encourage PAEs and other patent speculators to acquire patents and applications for no other purpose than to drive up their costs or to stockpile an arsenal for eventual litigation. The proposed rules do provide limited flexibility insofar as they distinguish between published and unpublished applications.¹⁹ However, the PTO should go further and allow a party acquiring pending applications, upon request, to keep updated attributable owner information confidential until the patent issues. Once the patent issues, however, the public interest in timely disclosure and updating of accurate ownership information, and the public availability of that information, is clear and outweighs any interest in maintaining confidentiality.

IV. The PTO Should Not Adopt the Proposal to Allow Voluntary Disclosure of Licensing Offers

The NPRM also seeks comments on whether the PTO should enable patent applicants and owners to voluntarily report licensing offers and related information for the Office to make available to the public.²⁰ The IA believes this provides limited new information and presents a significant risk of manipulation. Under current PTO rules, a patent owner or applicant can publish in the *Official Gazette* a notice of availability of a patent or application for license and

¹⁹ NPRM, 79 Fed. Reg. at 4111.

²⁰ *Id.* at 4109.



sale.²¹ Thus, the PTO already provides patent owners and applicants with a means to advertise the availability of their patents for licensing.

The proposal would go further and allow patent owners and applicants to publicize the terms of specific licensing offers. A comprehensive database of licensing information likely would enhance transparency and efficiency in the marketplace for patent rights. However, voluntary disclosures alone will not produce a comprehensive database. The vast majority of licensees and licensors treat licensing information as proprietary and confidential and therefore will not voluntarily disclose that information in a public, searchable database.

Furthermore, a database composed entirely of selectively disclosed information is unlikely to produce an accurate or useful picture of the patent marketplace. It is unclear, for example, what benefit flows from allowing a patent holder to publicize that a patent asserted to cover a rudimentary function (such as the ability to email a scanned document) is available for license at a cost of \$1,000 per employee. Particularly for the smaller companies that make up 55% of unique defendants in suits brought by PAEs²² and may be unfamiliar with patents or patent licensing, the presence of an offer to license in a PTO database may give an undeserved air of legitimacy to patent assertions. Further, if the PTO were to allow disclosure of offers of license to identified parties, the threat of publication could be used to inflate licensing costs. Finally, selective disclosure may also be used to undergird a claim of willful infringement or another litigation tactic. Simply put, voluntary disclosure creates more risks than benefits.

V. Conclusion

The Internet Association appreciates and supports the PTO's efforts to improve the transparency of ownership information. In the administrative setting, the courts, and the marketplace, knowing exactly who one is dealing with will yield more efficient and fair outcomes. Given the increase in patent litigation and the corresponding increase in the reassignment of patents to shell companies and other entities for litigation advantage, the IA strongly encourages the PTO to focus on eliciting current, comprehensive, and accurate ownership information for already-issued patents. There may be valid considerations for keeping changes in ownership confidential while a patent application is pending. Once the patent issues, however, the public's interest in fair notice, efficient transactions, and a reduction in abusive patent litigation counsels strongly in favor of maintaining and disclosing up-to-date ownership information.

²¹ 37 C.F.R. 1.21(i).

²² Chien at 11.



The Internet Association

Sincerely,

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The Internet Association

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