

Before the
U.S. Patent and Trademark Office
Commissioner for Patents

In the Matter of the Request for Comments on)
the Notice of Proposed Rulemaking) Docket No. PTO-P-2013-0040
Relating to Changes to Require,)
Identification of Attributable Owner) Submitted April 24, 2014
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)

**COMMENTS OF THE
SOFTWARE & INFORMATION INDUSTRY ASSOCIATION**

Introduction

The Software & Information Industry Association (SIIA) appreciates the opportunity to respond to the *Notice of Proposed Rulemaking Relating to Changes to Require Identification of Attributable Owner* published by the U.S. Patent and Trademark Office (PTO) in the Federal Register on January 24, 2014.¹ SIIA files the following comments on behalf of itself and its members.

As the principal trade association of the software and digital content industry, the more than 800 members of SIIA develop and market software and electronic content for business, education, consumers and the Internet. Our membership consists of some of the largest and oldest technology enterprises in the world, as well as many smaller and newer companies. SIIA member companies are leading providers of, among other things:

- software publishing, graphics, and photo editing tools

¹ 79 Fed. Reg. 4105 (Jan. 24, 2014)

- corporate database and data processing software
- financial trading and investing services, news, and commodities
- exchanges
- online legal information and legal research tools
- protection against software viruses and other threats
- education software and online education services
- open source software
- and many other products and services in the digital content industries.

The innovative companies that make up SIIA's membership rely upon patent protection to protect their inventions. SIIA members own thousands of patents, which they rely upon to protect their substantial investments in research and development. They invest billions of dollars to create innovative new products and services for the public benefit.

SIIA members also depend upon the ability to manufacture, develop, and sell their products free from improper assertions of patent rights. Within the last several years, SIIA members find themselves having to confront an unprecedented torrent of unfounded litigious assertions of patent rights. Because SIIA members' interests are as patent owners and users as well as defendants in patent assertion cases, SIIA is in a perfect position to offer a balanced approach to the problems associated with identification of attributable owners.

We are grateful to the PTO for recognizing the need to address the very important issue of identification of attributable owners ("AO") (formerly referred to as "real-party-in-interest") and strongly supports the obtaining, recording and making available of accurate, current and complete AO information while the patent application is pending at the PTO and during the life of the patent.

The grant of a patent gives the patent holder the right to exclude others from practicing the claimed invention. The granting of that right is part of a larger contract with the public in

which the patent owner agrees to comply with certain obligations. One of those obligations is to provide the public with proper notice of the patented invention, and that notice includes notice of who owns, who has the right to enforce, and who stands to substantially benefit financially from patent rights associated with the claimed invention.

The obligation to identify patent ownership is an important one. Identification of the true owner of a patent enables the marketplace for innovations to function at optimum efficiency to encourage investment and innovation and “promote the Progress of Science and useful Arts” The availability of complete, current and accurate AO information will also improve the efficiencies of licensing, transparency of the patent system, litigation and patent prosecution.

Unfortunately, the present system does a poor job of ensuring that attributable owners accurately identify themselves. Under the present system it is too easy for these owners to hide behind legal fictions. Partnerships, LLCs, subsidiaries, and other legal entities can hold patent rights while the connection between these entities and their corporate parents is often unknown or obscure to the public. This often makes it very difficult to determine what patents a company owns. This dynamic, in conjunction with there being no requirement that patent transfers be recorded, creates an environment that is ripe for abuse and gamesmanship. It allows companies to effectively “hide” their patent portfolio to the detriment of the public interest.

The availability of complete, current and accurate AO information is necessary for a company to determine such essential issues as: whether to make an investment in a particular product; who to license from; whether to license around a particular product; whether and who to collaborate and/or partner with; whether the company should avoid the market altogether; and how to manage liability risks. Many of these decisions must be made early on in the investment and innovation process. An inability to accurately assess

the patent landscape in a certain area could result in product developers deciding to refrain from entering the market completely – contrary to the very purpose of the patent system.

The need for accurate and complete AO information is not limited to the process of patent procurement. Both the *inter partes* and post-grant review processes have very short time windows and require a large investment. In these cases, the law requires that patent challengers must identify themselves. If challengers must identify themselves then it is only fair that patent owners likewise be required to identify themselves.

Furthermore, improved transparency and disclosure of AO information will also lead to greater efficiencies in litigation. It will reduce discovery costs, such as costs relating to prior art searches and owner identification. It will also help the parties in litigation make informed decisions on settlement. It is difficult for a party to settle if they do not really know who they are dealing with or what they are actually getting in the settlement.

Comments on the Proposed Rule Change

The increased transparency that would result from the proposed rules is necessary in order to spur innovation that is unfortunately being stifled by the present system's allowance of hidden ownership. While SIIA generally supports the proposed rules and believes that they represent a significant step in the right direction, we are also concerned that they fall short in some areas. If these shortcomings are not effectively addressed we fear that the rules will not have the desired effect of providing the kind of transparency that is necessary and desirable.

Most significantly, we strongly urge that the proposed rules require attributable owners to amend their disclosures at more frequent intervals after patent issuance. The proposed rules only require filing updated ownership information at the time of maintenance fee payments (*i.e.*, at 3.5, 7.5, and 11.5 years after grant). These very long intervals will give

PAEs ample time to continue to engage in the strategic and deceptive shell company games that have generated the need for enhanced ownership disclosure rules in the first place. A more detailed explanation of this and the other concerns we have with the proposed rules follows below.

A. The Definition of “Attributable Owner”

The PTO proposed rules would define attributable owners by classifying them into four, somewhat overlapping, categories: (1) titleholders, (2) “enforcement entities,” (3) “ultimate parent entities,” and (4) “hidden beneficial owners.”² In many ways, this is the most important provision in the proposed rules because it defines who is and who is not subject to the rules. If an entity can find a loophole in the rules so that it falls outside these definitions, then they can successfully skirt all application of the rules. Since we know that PAEs are masters at finding any loopholes that might exist in the law and then exploiting those loopholes to their benefit, it is important that the definition of attributable owner be carefully considered and broad enough to catch the offending activities.

Although the existing definition of attributable owners in the proposed rules is very good, we think the definition falls slightly short of the goal line because it does not cover entities that fall outside the four categories but otherwise stand to substantially benefit financially from a lawsuit enforcing the patent. For instance, often there are contractual and corporate relationships between parties in which the entity that is responsible for financing the lawsuit would not fall within the four categories.

To correct this, SIIA believes that the definition of “enforcement entities”³ should also encompass entities that are entitled to receive a majority of any proceeds from the

² 79 Fed. Reg. 4105, 4110 (Jan. 24, 2014)

³ As defined in proposed Rule 1.271(a)(2)

enforcement of the patent or application. We understand that expansion of the definition in this manner may present challenges for both the PTO and for the patentee to comply with. Nevertheless, we think that it is important that these types of entities be covered by the proposed AO rules because they are often the ones most responsible for driving the enforcement activities. If this concept is not incorporated into the definition of “enforcement entities,” we are confident that PAEs will shrewdly re-arrange their contractual relationships in a way that successfully avoids falling within the four classifications of an attributable owner under proposed Rule 1.271.⁴

Therefore, we suggest that the PTO conduct a study of the scope of the definition 18 months after the proposed rules are implemented to determine if the definition of attributable owners is sufficiently broad to address these concerns and operating efficiently and effectively. Alternatively, and preferably to limit implementation problems at the outset, the PTO could conduct a pilot program to test out the rules and make adjustments as needed to ensure accurate and useful information is obtained without unduly burdening the PTO or patentees.

B. Timing of Attributable Owner Information Collection

For issued patents, the PTO’s proposed rules would limit the required disclosure to take place only upon (1) the payment of maintenance fees, and (2) the return to the PTO for agency proceedings. In our view, this is the most flawed provision in the proposed rules.

Unlike in the case of patent applications, when patents are acquired strictly for their enforcement value, no legitimate business reason exists for keeping the AO information confidential or delaying its public disclosure. It is important that there be no loopholes in

⁴ This change also has the potential added benefit of aiding the PTO in avoiding potential conflicts of interest for Office personnel during examination and later proceedings.

the disclosure process. If there are, you can be sure that the PAEs will exploit them. As it stands now, the proposed rules do have significant disclosure loopholes.

It is relatively easy for a PAE who wishes to remain hidden to acquire, enforce, and divest themselves of a patent during the four-year window in which maintenance fees are paid. PAEs who wish to remain hidden can manipulate the proposed system by simply delaying the formal acquisition (or other contractual arrangement) of a patent until shortly before they undertake their enforcement activities. As we have previously proposed, a more effective approach would be to require the attributable ownership disclosures be required at the time of any attempted enforcement of the patent. This would include enforcement through litigation and also pre-litigation enforcement, such as the sending of a written demand letter.

We understand that there are groups that oppose an obligation to disclose attributable ownership at the time of any attempted enforcement of the patent. We respectfully disagree. The disclosure in conjunction with enforcement requirement is reasonable and should not be overly burdensome. We had previously recommended that AO information be kept current by requiring that it be recorded with the Office *whenever it changes*. Requiring disclosure in conjunction with enforcement is a significant change from our original view and, we believe a reasonable compromise.

As noted above, transparency of ownership at the time the patent is asserted will allow the defendant or demand-letter recipient to evaluate how to respond in view of accurate AO information. Requiring disclosure in conjunction with enforcement would enhance the overall function of the patent system and help address the problem of patent litigation abuse while at the same time not substantially burdening the attributable owner, who already must prepare a complaint or demand letter in conjunction with the other enforcement entities.

C. Sanctions for Non-Compliance with the Proposed Rules

Penalties for Non-Compliance for an Issued Patent: One surprising aspect of the proposed rules is that the rules do not appear to include any penalty for bad faith, material failures to provide timely AO information for an issued patent. Without the ability to impose a penalty for non-compliance, it is unclear how the PTO can effectively enforce the rules and expect adherence by applicants and owners. Perhaps, the intent is for the PTO not to play a role in enforcing the rule, and instead rely on the courts. If that is the case, then the rules need to make that clear and to specify that the Courts can penalize bad faith non-compliance with the AO disclosure timing rules as inequitable conduct in violation of PTO Rule 1.56.

Penalties for Non-Compliance for a Patent Application: The only penalty in the proposed rules would apply in the case of a failure to file a “notice identifying the current attributable owner.”⁵ In such cases, the proposed rules would require “abandonment” of the patent application.⁶ Since this penalty would apply to applications, it would be solely enforceable by the PTO.

Abandonment of a patent application is *not* an appropriate penalty for non-compliance with the proposed rules. The PTO lacks the tools to detect a failure to properly identify the attributable owner during the patent prosecution. As a result, it is highly likely that the PTO will impose the abandonment penalty only when the patent applicant inadvertently fails to file a notice, as opposed to instances of purposeful or unintentional improper filings. In other words, actual improper filings will escape penalty, but a simple clerical

⁵ Proposed Rules 1.273 and 1.277

⁶ *Id.*

error will result in abandonment. That most certainly would be an inequitable and undesirable result.

Furthermore, even in the unlikely situation where the PTO is able to discern that there has been a material failure to disclose all required AO information and thus orders abandonment of the patent application, correction of the information would require a “good faith” reason to revive the abandoned application and lack of “good faith” is especially difficult for an agency to find in *ex parte* proceedings and extremely expensive for parties to prove in litigation.

Accordingly, we propose that, instead of abandonment, the penalty for non-compliance with the proposed AO rules for patent applications should be the loss of patent term adjustment. We think that approach is equitable. Since one purpose of the AO disclosure requirements is to improve the examination process and an applicant who fails to provide this information ends up delaying the prosecution, loss of patent term adjustment seems to be a just, but not overly harsh punishment.

This approach would be consistent with the existing law and rules. Under Sections 154(b)(2)(C)(i) and (iii), the PTO Director presently has the authority to define by regulation “the circumstances that constitute a failure of an applicant to engage in reasonable efforts” to conclude examination, and may penalize the applicant by reducing patent term adjustment by the length of the delay. Section 282(c) allows an accused infringer to assert the invalidity of a patent term extension under Section 154(b) because of a material failure by an applicant or the Director.

The possibility of a reduced patent term adjustment should have the desired effect of helping to deter improper and non-compliance, while providing the added benefit of being a penalty that can be enforced by interested parties who demonstrate during litigation patentee’s failure to comply with the AO requirements.

D. Voluntary Submission of Licensing Information

We support the PTO's proposing of a voluntary licensing database, however, we believe that PAEs will not participate and many technology companies will also not participate. Consequently, while we commend the PTO for this proposal, we think this effort is unlikely to desired goal of promoting transparency or enhancing licensing efficiencies.

Conclusion

SIIA supports the proposed rules, but urges that certain changes be made before the rules are implemented in order to address both definitional and disclosure loopholes. The system we have now allows PAEs to hide ownership behind shell companies and does not require that changes in ownership be disclosed in a timely manner. PAEs notoriously conceal themselves behind complex corporate shells for various strategic reasons. Improved disclosure rules would help to identify parties as PAEs and map their conduct in a timely way. Improved disclosure rules would also help companies better assess risk in monitoring and search efforts to be able to accurately associate patents with the true owner and recognize common ownership across various families of patents. However, if there are loopholes in the rules, the PAEs will find them and exploit them and the goal of increased transparency will be thwarted. Therefore, it is essential that the rules be tightened up as we suggest above.

In closing, we would like to thank you for the opportunity to provide these comments. If you have questions regarding these comments or would like any additional information please feel free to contact Keith Kupferschmid, SIIA's General Counsel and Senior Vice President of Intellectual Property, at (202) 789-4442 or keithk@siia.net.