

IN THE UNITED STATES PATENT AND TRADEMARK OFFICE

Changes To Require Identification of Attributable Owner

Docket No. PTO-P-2013-0040

**COMMENTS OF DELL INC. AND CISCO SYSTEMS, INC. IN SUPPORT OF
PROPOSED RULES**

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The PTO has requested public comment on proposed rules requiring disclosure of attributable owner information for patent applications and issued patents. PTO, Notice of Proposed Rulemaking, Changes To Require Identification of Attributable Owner, 79 Fed. Reg. 4105 (Jan. 24, 2014). The PTO subsequently highlighted several particular areas where it is seeking public input, including *who* must be identified as an attributable owner and *when* such identification should occur. PTO, Notice of Public Hearings and Extension of Comment Period on the Proposed Changes To Require Identification of Attributable Owner, 79 Fed. Reg. 9677, 9678 (Feb. 20, 2014).

Dell Inc. and Cisco Systems, Inc. support the PTO's proposed rules and offer several suggestions for clarifying or strengthening the rules. Dell is a member of the Business Software Alliance and both Dell and Cisco are members of the Coalition for Patent Fairness. Dell and Cisco generally endorse the comments filed by these groups and will avoid repeating their suggestions in these comments.

I. The PTO's proposed rules will promote the notice function of patents and innovation.

The PTO's proposed attributable ownership requirement will not only enhance the PTO's ability to carry out its operations but also will promote innovation by providing accurate information to the public.

As the PTO noted in its Federal Register Notice, several facets of the PTO's procedures will benefit from accurate information regarding who has interests in the relevant application or issued patent. Attributable ownership enables examiners to avoid conflicts of interest; permits determination of what prior art is excludable pursuant to the post-AIA § 102(b)(2) and thereby helps to prevent double patenting; allows the PTAB to verify that a request to initiate a post-

issuance proceeding is made by a proper party; and generally ensures that the information provided by the PTO to the public is accurate and not misleading.

Lack of patent transparency puts innovators at a disadvantage when building products, negotiating patent licenses, or defending patent lawsuits. As Professors Fiona Scott Morton and Carl Shapiro have noted:

Some PAEs [patent assertion entities] create shell companies to hold patents and assert them. This practice may make it difficult to determine who actually owns which patents and whether they are patents to which target firms are already licensed. A target firm may find it difficult to determine if a patent was in the portfolio of a previous owner on the date at which the target firm took a portfolio license from that firm. If so, a licensee could end up paying for intellectual property to which it already has rights. Existing explicit contracts of this sort are harder to enforce in an environment characterized by secrecy.

Fiona Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions* 8 (July 2, 2013), available at http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2288911. In addition to not knowing whether it already has a license, an innovator that enjoys a covenant-not-to-sue that is personal to the grantor may be unaware when the covenant terminates as a result of an undisclosed transfer of the patent.

The Federal Trade Commission noted that “[o]ne strategy for navigating an environment with many potentially relevant patents is to concentrate clearance efforts on patents held by competitors or others who are likely to sue.” Federal Trade Comm’n, *The Evolving IP Marketplace: Aligning Patent Notice and Remedies with Competition* 130 (Mar. 2011). But that strategy is unavailable where some patent owners “mak[e] it as difficult as possible” to determine the ownership of a patent, engage in “intentional hiding,” or delay reporting a patent assignment. *Id.* at 130 & n.331 (internal quotation marks omitted); see Robin Feldman & Tom Ewing, *The Giants Among Us*, 2012 Stan. Tech. L. Rev. 1, ¶ 21 (2012) (one patent owner used

“1276 shell companies” to hold “roughly 8000 US patents and 3000 pending US patent applications”). Hidden ownership or substantial delays in recording assignments may result in innovators making investments without having cleared all relevant patents, in which case licensing assertions by patent enforcement entities will occur “*after* a firm has invested in creating, developing or commercializing the patented technology,” and the threat of injunctions, exclusion orders, or royalty awards will enable the enforcement entity to demand hold-up costs. FTC 2011 Report at 50; *see* Colleen V. Chien, *From Arms Race to Marketplace: The Complex Patent Ecosystem and Its Implications for the Patent System*, 62 *Hastings L.J.* 297, 319 (2010) (“secrecy serves a ‘troll’ business model, in which patentees wait until companies are already practicing an invention to ‘surprise’ them with a suit”).

Lack of transparency also endangers the integrity of standard-setting. When a company participating in a standards-setting body that requires disclosure of relevant IP hides some of its patents during standards negotiation for later assertion, that conduct is anticompetitive. *See, e.g., Rambus Inc. v. FTC*, 522 F.3d 456, 463 (D.C. Cir. 2008) (“if Rambus’s more complete disclosure would have caused JEDEC to adopt a different (open, non-proprietary) standard, then its failure to disclose harmed competition”).

At the PTO’s public hearing on March 13, 2014, some commenters asserted that transparency would benefit only large companies. The lack of transparency also impacts small businesses—which are increasingly the target of abusive demand letters from patent assertion entities demanding lump-sum licensing fees—because they are unable to mount proper defenses without clarity as to who is threatening them (making it difficult to determine whether the purported owners in fact own patents or whether the targets are already licensed). One firm reportedly sent demand letters to thousands of U.S. businesses from secretive patent-holding

companies with six-letter meaningless names, such as AdzPro, GosNel, and JitNom. Joe Mullin, *Patent stunner: Under attack, nation's most notorious "troll" sues federal gov't*, Ars Technica, Jan. 14, 2014, <http://arstechnica.com/tech-policy/2014/01/patent-stunner-under-attack-nations-most-notorious-troll-sues-federal-govt/>; Joe Mullin, *Meet the nice-guy lawyers who want \$1,000 per worker for using scanners*, Ars Technica, Apr. 7, 2013, <http://arstechnica.com/tech-policy/2013/04/meet-the-nice-guy-lawyers-who-want-1000-per-worker-for-using-scanners/>. The PTO's efforts to improve patent transparency will help all firms, large and small.

II. The PTO can clarify and strengthen its proposed rules in several ways.

The PTO's notice asked for comments on ways that the proposed rules can be made even more effective. The several suggestions described below are all within the PTO's rulemaking power and would help to bring the PTO's practice into closer conformity with the practice in other federal agencies.

A. The "who" question: Attributable owners for reporting purposes should be clarified to include a broader class of enforcement entities and should include entities that seek to hide their attributable ownership for more than a temporary period.

The PTO has proposed to define attributable owners for reporting purposes to include (1) all joint owners of the title to a patent or application, (2) entities necessary to be joined in a lawsuit to enforce a patent, (3) ultimate parent entities as defined by the FTC's rules, and (4) hidden beneficial owners defined as entities that "temporarily" seek to hide their status. 79 Fed. Reg. at 4119 (proposed 37 C.F.R. § 1.271(a)-(c)).

All such entities are properly included as attributable owners for reporting purposes. The proposal to borrow the FTC's definition of ultimate parent entity, which is used by the FTC in determining who must file premerger reports under the Hart-Scott-Rodino Act, is appropriate because the FTC's definition has stood the test of time under heavy usage. Moreover, for patent

acquisitions above the HSR financial thresholds, reporting to the FTC may be required independently of the PTO's requirements (*see* FTC, Premerger Notification; Reporting and Waiting Period Requirements, 78 Fed. Reg. 68,705, 68,706 (Nov. 15, 2013) (“A patent is an asset under the [HSR] Act.”) (citing *SCM Corp. v. Xerox Corp.*, 645 F.2d 1195, 1210 (2d Cir. 1981))), and consistency of definitions will be useful to parties that must make both filings.

The PTO can strengthen its rules by clarifying or broadening the definition of attributable owners in two ways. First, the PTO should require disclosure of all enforcement entities whatever their form. That is, the PTO should require disclosure of persons having a substantial economic interest in the patent, defined as rights or claims to current or future revenues derived from a patent, and disclosure of persons having control over the licensing and enforcement of a patent. Patent enforcement entities can and do obtain effective ownership and control of patents using contracts and management rights that provide substantial economic interests and substantial control over patents, while stopping short—often deliberately so—of becoming “necessary” parties in a lawsuit to enforce a patent.

Rule 19 of the Federal Rules of Civil Procedure defines joinder of necessary parties in terms of the court's ability to “accord complete relief” and to avoid impairing a party's ability to protect its interests and to avoid inconsistent judgments. The PTO's objectives—accurately identifying patent ownership in order to promote innovation and to avoid conflicts of interest within the Office, etc.—certainly include such lawsuit-necessary parties but are broader: the public and the PTO's own employees should know who has substantial economic or control interests in the patent. *Cf.* 79 Fed. Reg. at 4106 (“the proposed rules have adopted the term ‘attributable owner’ rather than ‘real party in interest’ to avoid confusion” with other statutory provisions).

Second, the PTO should not limit disclosure of hidden owners to those who merely seek to hide their attributable interests for a “temporary” period. What counts as “temporary” will be a source of dispute, and limiting disclosures to temporarily hidden interests will reward creative attempts to structure longer-term hiding of interests that would do even greater damage to the disclosure interests of the public and the PTO. An attributable interest that is deliberately hidden for any period—whether temporarily, indefinitely, or even for the full life of a patent—should be disclosed. The FTC’s rule that disregards attempts to avoid premerger reporting has no temporal limit and provides a useful model. *See* 16 C.F.R. § 801.90 (FTC rule entitled “Transactions or devices for avoidance”: “Any transaction(s) or other device(s) entered into or employed for the purpose of avoiding the obligation to comply with the requirements of the act shall be disregarded, and the obligation to comply shall be determined by applying the act and these rules to the substance of the transaction.”).

B. The “when” question: Attributable ownership by a patent assertion entity should be promptly recorded.

The PTO’s current rules allow recording of an assignment on a voluntary basis. 79 Fed. Reg. at 4108. The proposed rule changes would require disclosure of attributable ownership at a few specific points in time when the applicant or patentee “touches” the PTO, *e.g.*, when a patent issues or when the patentee pays maintenance fees or when the patentee returns to the Office for proceedings such as inter partes reviews or reexaminations. *Id.* at 4120-21.

These occasions for disclosure will be helpful, although the PTO can and should do more to require disclosure in circumstances when enforcement of patents is most imminent. The PTO has statutory power, which it should use, to require both (1) disclosure of attributable ownership

interests currently held by patent assertion entities and (2) disclosure of attributable ownership promptly following any future assignment of an application or patent to a patent assertion entity.

The PTO has broad power to require applicants and patentees to record promptly *all* assignments of attributable ownership; the more modest suggestion here is to require such recording of assignments (in addition to the other assignments already proposed) when the application or patent is assigned to a patent assertion entity. The PTO's power derives from its responsibility for disseminating patent information to the public (35 U.S.C. §§ 2(a)(2), 41(i)(1)-(2)), including the recording and publishing of assignments of applications, patents, "or any interest therein" (*id.* § 261). In particular, to carry out its duty to "maintain" patent records "for use by the public" (*id.* § 41(i)(1)) and to "assure full access by the public to, and dissemination of, patent . . . information" (*id.* § 41(i)(2)), the PTO may require applicants and patentees to file updates if there are changes in attributable ownership.

The PTO is expressly empowered to establish regulations to "govern the conduct of proceedings in the Office." *Id.* § 2(b)(2). That grant of power enables the PTO, at a minimum, to require anyone engaging in proceedings "in the Office"—such as the times set forth in the proposed rule—to provide the PTO with complete and accurate information about attributable ownership interests. When read in conjunction with the PTO's ongoing duties to "maintain" and "assure full access" to patent records under §§ 41(i)(1) and (2), the PTO's power is also properly construed to encompass a rule requiring those who engage in such proceedings to file such additional reports as necessary to make certain that the information they provide *remains* complete and accurate. The PTO's ongoing dissemination of ownership information is, itself, an action occurring "in the Office" to which the grant of power in § 2(b)(2) extends. To read the limitation "in the Office" as allowing the PTO to disseminate accurate patent information only

on the relatively infrequent occasions during a patent’s long life when the applicant or patentee *itself* was “in” the Office would undermine these core responsibilities of the PTO and would be inconsistent with the statute’s requirement that the PTO “maintain” and “assure full access” to patent information. A broken clock may be right twice a day, but it does not “maintain,” or “assure full access” to, the correct time.¹

Other federal agencies that grant exclusive property-like rights require prompt registration of *all* assignments of those rights. *E.g.*, 47 C.F.R. § 1.948 (FCC forms for disclosure of assignments, including assignments of partial ownership, of wireless spectrum licenses). Similarly, the copyright laws require registration of rights prior to enforcement. 17 U.S.C. § 411.

The proposal to require disclosure of ownership by or assignments to a patent assertion entity is narrowly tailored in two respects. Only a relatively small fraction of the outstanding patents are transferred to patent assertion entities, and therefore the additional burden of recording those few assignments will be correspondingly limited. On the other hand, transfer of a patent to a patent assertion entity very often will be followed by enforcement action—either demand letters or lawsuits—where accurate public disclosure of ownership is most imperative.

C. Confidential treatment of attributable ownership respecting patent applications should be limited to owners—not including patent assertion entities—who can assert a commercial justification for confidentiality.

As noted in the PTO’s Federal Register Notice, attributable ownership information is to be made public. 79 Fed. Reg. at 4107 (“attributable owner information would be made available to the public for an application that has been published or issued as a patent”). Exceptions to the

¹ Section 261, by providing a practical penalty in certain circumstances for failure to record assignments promptly, does not preclude the PTO from requiring recordation of assignments in additional circumstances.

disclosure requirements under the Freedom of Information Act applicable to all federal agencies generally require a legitimate business reason for confidentiality, such as a trade secret or commercial information that warrants confidential treatment. 5 U.S.C. § 552(b)(4). As interpreted by the D.C. Circuit, a “trade secret” under FOIA Exemption 4 is narrowly defined as “a secret, commercially valuable plan, formula, process, or device that is used for the making, preparing, compounding, or processing of trade commodities and that can be said to be the end product of either innovation or substantial effort.” *Public Citizen Health Research Group v. FDA*, 704 F.2d 1280, 1288 (D.C. Cir. 1983). The D.C. Circuit’s definition also incorporates a requirement that there be a “direct relationship” between the trade secret and a productive process. *Id.*

If the PTO adopts a rule permitting attributable ownership to be kept confidential during the period that a published application remains pending, it should require the entity requesting confidential treatment to make a showing that it is engaged in or is planning productive commercial activity that would be impaired absent confidentiality.

Automatic confidentiality of attributable ownership information merely upon request is too broad. Patent assertion entities both large and small are buying patent applications. Whereas an operating company that is developing a new technology may have a commercial reason to want to keep its identity confidential while it continues to develop complementary innovations (until the patent issues), a patent enforcement entity that buys a pending application has no such justification. Plans to assert or litigate patent rights are not a “productive process” that would or should be exempt from disclosure under FOIA. Laying in the weeds waiting for more infringement does not warrant confidentiality—the public interest favors making ownership by patent asserters public as early as possible so that potential targets for infringement actions can

take steps to reduce their exposure, including avoiding use of potentially patented technologies, negotiating licenses, or challenging invalid patents.

Respectfully submitted.

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