Testimony of

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USPTO Hearings on

Creating Transparency in Ownership of Patents & Patent Applications

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The patent system is quintessentially a notice system. As with its evolutionary ancestor, real property, patents ideally are intended to provide notice to all of the boundaries of that which is claimed. For example, a 2013 governmental report, which cited scholars Bessen & Meurer, noted the following:

> 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.[2]

Information is particularly important at this stage in the evolution of the patent system. Although the licensing and trading of patent rights unrelated to product development is not new,[3] the scope and scale of such modern activities are

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[1] These comments are adapted from portions of the following work: Robin Feldman, *Transparency,* (forthcoming, VIRGINIA J.L. & TECH. 2014).
[2] Congressional Research Service Report, An Overview of the Patent Troll Debate 9 (April 16, 2013)(citing JAMES BESSEN & MICHAEL J. MEURER, PATENT FAILURE 10 (2008)).
[3] See Naomi R. Lamoreaux, Kenneth L. Sokoloff, and Dhanoos Sutthiphisal, Patent Alchemy: The Market for Technology in US History, 87 BUS. HIST. REV. 3, 21 (2013) (documenting attorneys who served as patent brokers in the nineteenth century); Gerard N. Magliocca, Blackberries and

unusual. Large numbers of patents that would not have garnered a return in the past are being separated out from any underlying product and transferred in the form of commoditized, tradable rights.[4] As the market for patent monetization develops and expands, one must think of it in classic market terms. This includes ensuring the flow of information necessary to establish an efficiently functioning market.

One can begin with the basic notion that markets function better when players in the market can identify each other. The ability to know which parties hold an asset and how to reach them is an essential starting point for any market. Moreover, bargaining is more efficient if one knows with whom one is bargaining. This type of information 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.

With patents, however, the rights are not single-dimensioned. Given the potential to separate and distribute patent rights in various configurations, identifying who is the "owner" of the right is only the beginning. Depending on the rights structure established for a particular patent, key questions could involve who has the right to assert the patent and who has control to varying extents of assertion of the patent. Given the convoluted structures involved, understanding the money flow, regardless of formal control structures, is also an essential part of understanding who is in control.

Barnyards: Patent Trolls and the Perils of Innovation, 82 NOTRE DAME L. REV. 1809, 1809 (2007) (quoting Sen. Isaac Christiancy, 8 Cong. Reg. 307 (1878) for a colorful description of patent sharks);

[4] For a detailed description of the emergence of the modern market for patent monetization and the forms of entities that have emerged, see Feldman, Intellectual Property Wrongs, supra note 4, at 264-268.. See also Sara Jeruss, Robin Feldman & Joshua Walker, The America Invents Act 500: Effects of Patent Monetization Entities on U.S. Litigation, 11 DUKE L. & TECH. J.. 357 (2012); Tom Ewing & Robin Feldman, The Giants Among Us, 2012 STANFORD. TECH. L. REV.. 1 (2012).

The question of, “who are the parties,” implicates information about the territory claimed. The ability to see who controls a patent and how that patent is being asserted can give notice to the public of what the patent holders believe is the appropriate footprint of the patent. That footprint may emerge not simply in one assertion but through the full body of assertions. In particular, a patent in one field that is being asserted in another field puts other players on notice, allowing them to plan and bargain appropriately.

At another level, information is a great leveler. Numerous scholars and commentators have noted that the economics of patent litigation allow patent holders to game the system. In simplified form, it can cost from $600,000 to $6 million to challenge a single patent demand in court. These costs increase in the case of multiple patents or larger patent portfolios. As a result, a patent holder can launch an attack on a target for a minimal expenditure, offering settlement costs below what it would cost the target to challenge the demand, or in some cases below what it would cost the target to fully analyze the demand. These economic realities may encourage targets to settle regardless of whether the patent is valid or validly asserted against them.

Market information also can be helpful in addressing the bargaining asymmetries reflected in the economics of modern patent assertion. Although certainly no panacea, accused infringers may benefit from being able to understand clearly all of the parties who are involved in the patent, see others who have been targeted, and see the results of different assertions that the patent holder (and its entities) have made.

Information on the various parties who have interests in the patent has efficiency information 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 may benefit from being able to identify all of the relevant parties. This, of course, would only be useful if the court is able to bring those parties into the proceedings when appropriate, an issue that implicates judicial joinder rules. Nevertheless, the question of whether and when it is appropriate to join must begin with information on who is in the universe of potential interests. Such information provides the framework if courts or regulators wish to hold those with pecuniary interests responsible for damages that may have been imposed in the pursuit of their financial interests.

Finally, market information on the identity of those who hold interests in patents and the territory they are claiming with those patents is important from a societal perspective as well. With the emergence of the new market for patent monetization, it will be essential to develop the type of oversight that can identify inappropriate behavior when it occurs and cabin that behavior, as well as identifying patterns that are likely to lead to market inefficiencies. Allowing vast networks of hidden behavior has the happy coincidence of preventing regulatory actors from observing the behavior. From a societal perspective, the result is less than optimal. Regulatory actors, such as public and private antitrust actors as well as securities regulators where appropriate, must be able to connect the dots that can reveal a troubling picture.

Such regulatory transparency is particularly important for patents. Patents are government entitlements, which are granted with specific goals in mind. When an active and complex trading market develops for those rights, it is essential that society has the ability to determine whether that market is functioning appropriately and whether it serves the goals of the government grant.

One could argue that the process of eliciting information on the universe of potential parties will have efficiency costs. Parties will have to spend time filing the information, and disputes about the adequacy of information provided will, inevitably, arise. There are always costs associated with providing information to the market, however. The key is finding an appropriate mechanism to minimize those costs while providing the information necessary for efficient transactions and settlement. Most important, such efficiency costs are likely to pale in comparison to the current inefficiencies of the patent litigation system. Shadow boxing is rarely an efficient judicial sport.

Turning to the USPTO proposals themselves, I wish to commend the Patent & Trademark Office for its revised set of proposals, published in January of 2014. The new proposals are a much needed effort to strike at the heart of the patent transparency problems. By requiring the reporting of so-called enforcement entities, ultimate parent entities, and hidden beneficial owners, the proposals provide the opportunity to make transparency a reality in the patent system.

In drafting the final language, however, I would suggest that it will be important to tighten up areas of the current proposals that may allow patent holders to evade the intent of the regulations. To this end, I would like to offer three suggestions.

First, "ultimate parent entities" are defined in reference to the Hart-Scott-Rodino threshold, which designates the point at which one must file with the Federal Trade Commission for antitrust clearance of a merger or acquisition. The Hart-Scott-Rodino sieve is aimed at capturing large players. Information sufficient for an optimally functioning patent market, however, would be necessary for a patent regardless of whether the patent holder is a large or small player. In addition, even where anticompetitive behavior is concerned, the Hart-Scott-Rodino threshold may be ineffective in the complex patent monetization world.

The concern, however, is more than theoretical. I have chronicled the rise of one product company that purchased a set of broadly worded patents and asserted them aggressively against competitors, as well as engaging in an expansive acquisition campaign of buying more than 20 competitors and patent portfolios in the field. None of the individual transactions appears to have triggered the Hart-Scott-Rodino reporting requirements.[5] The point is simply that antitrust thresholds are unlikely to be sensitive enough to serve as the appropriate analogy for patent transparency regulations.

My second suggestion relates to the USPTO's proposed concept of "Hidden Beneficial Owners." Hidden beneficial owners are described as those who try to avoid the need for disclosure by temporarily divesting themselves of ownership rights through contractual or other arrangements. The concept of casting the net

[5] For a detailed description, see id. at 288-294.

widely to include those who are trying to hide is an important one in patent monetization. Looking only for those who temporarily divest, however, could risk missing a considerable amount of evasive behavior. Complex patent aggregation and monetization entities may be permanently designed to avoid transparency, neatly bypassing requirements related to temporary divestment. The hidden beneficial owners section explains that the section is "designed to discourage intentional shielding of such ownership interests," language that could conceivably apply more broadly than temporary structures. Following on the heels of the "temporary divestment" language, however, the broader language could have significant difficulty standing on its own.

The notion of hidden beneficial owners will be critical to transparency. For example, National Public Radio has reported on the shell company "Oasis Research," noting that the company distributes 90% of its net profits to Intellectual Ventures. At a panel at Stanford Law School last Friday, one of the founders of Intellectual Ventures suggested that Intellectual Ventures always sues in its own name. When asked about the lawsuits filed by Oasis Research, the Intellectual Ventures founder responded that Intellectual Ventures has simply sold the assets and does not control Oasis Research. This perspective is an example of how companies can structure their relationships with shell companies to try to obtain the benefits while maintaining sufficient distance to try to avoid any disclosure obligations that might be imposed in the future. For this reason, I would suggest that reference to certain securities law disclosure concepts could be tremendously useful. Explicitly referencing the securities regulation framework for terms such as beneficial and pecuniary interest and disclosure avoidance language, brings the wisdom of experience gained with the use of those terms across time.

Finally, the timing requirements of the 2014 proposal are seriously limited. In the proposal, patent applicants are required to provide information at the time of filing for a patent and have an ongoing obligation to update information while the patent is pending. Once the patent has issued, however, the patent holder is only required to update information when maintenance fees are due and at the time of any post-issuance proceedings before the PTO. Maintenance fees are due at the PTO only 3 times in the 20-year life of a patent, at three years, seven years and eleven years.[6]

The advantage of limiting transparency requirements to these few moments lies in the lower production burden on patent-holders. Modern patent monetization takes place throughout the life of the patent, however. Occasional information does not provide the robust information necessary for an openly functioning market.

In short, patents are imbued with public interest by virtue of the fact that they are a government grant, bestowed only for purposes enshrined in the Constitution itself. As with the trading of public securities, the trading of an asset imbued with the public interest must be sufficiently regulated to ensure proper functioning of that trading market. Once again, I commend the USPTO for these bold and critical steps that have the potential to help bring clarity and order to the patent process and to the patent markets.

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[6] See US Patent & Trademark Office, Maintain Your Patent, http://www.uspto.gov/patents/process/maintain.jsp