

Before the  
United States Department of Commerce  
Patent and Trademark Office

In the Matter of  
Notice of Roundtable on Proposed Requirements for Recordation of Real-Party-in-  
Interest Information Throughout Application Pendency and Patent Term

Docket No. PTO-P-2012-0047

Comments of the Antitrust Division of the United States Department of Justice  
And the United States Federal Trade Commission

February 1, 2013

The U.S. Patent and Trademark Office (“the PTO” or “the Office”) issued a Federal Register Notice on November 26, 2012, announcing that it would be conducting a roundtable discussion to obtain public input from organizations and individuals on how the Office could change its rules of practice to (1) collect information about patent ownership (including the real party in interest (“RPI”)) during patent prosecution and post-issuance and (2) make such information publically available.<sup>1</sup> The Antitrust Division of the U.S. Department of Justice and the Federal Trade Commission (FTC), whose missions are to protect and promote competition, offer these comments in support of the PTO’s adoption of rules that would increase the transparency of patent ownership by requiring disclosure of the RPI for both published patent applications and issued patents.

Pursuant to the PTO’s proposal, a patent applicant would have a duty to provide RPI information when filing its application and would be required to update that information within a reasonable time period of any ownership change (presumed to be within 3 months of the transfer of ownership). The applicant would then certify that the RPI information on file is accurate when the PTO issues the patent. After issuance, the PTO intends to have RPI information verified or updated at the time the patent owner is required to pay the fees necessary to maintain the patent rights, i.e., 3.5, 7.5 and 11.5 years after the PTO issues the patent, and if the patent becomes involved in any post-issuance proceedings before the Office.

The Antitrust Division and the FTC support the efforts of the PTO to provide more complete information regarding patent ownership to the public. Under Secretary Kappos recently noted that “[a] root cause of problems with our current environment for software patents — and indeed all patents — is simply deciphering ownership. At the heart of a well-functioning innovation environment is accurate information about who owns what assets, so that license rights can be confirmed or sought, and unproductive effort simply avoided.”<sup>2</sup> Consequently, the PTO has concluded that it would be in the public interest to implement rules that would decrease this information gap. The Antitrust Division and the FTC expect that the proposed changes will increase efficiency in the patent marketplace, thereby benefiting competition and innovation. In fact, the Antitrust Division and the FTC would support changes to the Office’s rules of practice requiring RPI information to be recorded with the Office within a reasonable time after each transfer of ownership throughout the life of a patent.

<sup>1</sup> 77 Fed Reg. 70, 385 (Nov. 26, 2012), available at <http://www.gpo.gov/fdsys/pkg/FR-2012-11-26/pdf/2012-28333.pdf>.

<sup>2</sup> David J. Kappos, Under Sec’y of Com. for Intellectual Prop. & Dir., U.S. Pat. & Trademark Office, An Examination of Software Patents, Keynote Address at the Center for American Progress (Nov. 20, 2012), available at [http://www.uspto.gov/news/speeches/2012/kappos\\_CAP.jsp](http://www.uspto.gov/news/speeches/2012/kappos_CAP.jsp).

## I. Background

Current difficulties in identifying the owner of a patent make the patent system less efficient than it could be. The PTO's system of recording patent assignments and transfers in ownership is generally voluntary. Parties may, at their option, record assignments with the Office by paying a fee and filing a form. Neither the Patent Act nor PTO regulations require such recordation, although an assignment not recorded with the PTO is "void as against any subsequent purchaser" who lacks notice of the assignment.<sup>3</sup> As a result, although the Office's records are open to the public, they do not include all assignments. Given the absence of a requirement to record patent transfers, determining who owns a patent can prove very challenging. This difficulty is increasingly significant given the growth of the secondary market for patents in the United States.

Moreover, even when an actual owner or assignment is recorded, the RPI may not be known. For example, many firms house patents in subsidiaries or special purpose entities (sometimes referred to as "shell companies") that may be recorded as the patent owner without conveying any real information as to the "true" or controlling owner. The Antitrust Division and the FTC strongly believe that in order for any transparency rules to achieve their goals, the definition of RPI must be crafted to provide meaningful information to potential licensees, regulators, financial markets, and consumers. Identifying the parent or controlling firm in a patent ownership chain will promote efficient markets.<sup>4</sup>

In its notice announcing the Roundtable, the PTO identified several benefits of its proposal, including: 1) providing the public with a more comprehensive understanding of which United States-issued patent rights are being held and maintained by various entities; 2) providing financial markets with more complete information about the valuable assets generated and held by companies; 3) providing inventors and manufacturers with a better understanding of the competitive environment in which they are operating; and 4) facilitating the examination of patents by the PTO, particularly in light of new provisions in the America Invents Act.<sup>5 6</sup>

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<sup>3</sup> 35 U.S.C. § 261 (2011). The PTO does require proof of assignment to permit an assignee to take certain actions as owner of the patent or application in PTO proceedings. *See* 37 C.F.R. § 3.73 (2011).

<sup>4</sup> David J. Kappos, Under Sec'y of Com. for Intellectual Prop. & Dir., U.S. Pat. & Trademark Office, Opening Remarks at USPTO Roundtable on Real Party in Interest Information (Jan. 11, 2013), *video available at* <http://helix-1.uspto.gov/asxgen/2013-0111EditedRoundtableonRPI.wmv>.

<sup>5</sup> Leahy-Smith America Invents Act, Pub. L. No. 112-29, 125 Stat. 284-341 (2011).

<sup>6</sup> 77 Fed. Reg., *supra* note 1, at 70,386.

## II. Discussion

As discussed below, increased informational transparency of patent ownership will benefit competition and innovation by improving the patent system's notice function. As the FTC recognized, poor patent notice "hinders competition by forcing firms to design products with incomplete knowledge of the cost and availability of different technologies."<sup>7</sup> Knowledge of the actual owner of a technology will enable a designer to more accurately evaluate the costs of incorporating a particular technology into products prior to incurring significant sunk costs.

The PTO has proposed two possible definitions for RPI. The first is a "Broad" definition that, as described in the Federal Register Notice, and discussed below, may not include an ultimate parent entity (UPE). The second, "Limited" definition explicitly includes the UPE. Due to the federal antitrust agencies' experience with this term, the Antitrust Division and the Federal Trade Commission support an RPI definition that, at a minimum, includes the UPE, either by including all UPEs in the "Broad" definition, or by adopting the "Limited" definition.

### A. Transparency in RPI Information Benefits Competition

The Antitrust Division and the FTC fully support the implementation of new rules that would require the disclosure of RPI information for published patent applications and issued patents. Providing access to information about the true, controlling owner of a patent will yield a number of benefits. It is likely to improve the notice function of our patent system, which will promote competition and innovation to the benefit of U.S. consumers by facilitating bilateral licensing, increasing design freedom, and allowing firms to better manage risk. Under Secretary Kappos outlined a number of these benefits in his opening remarks at the Roundtable:

[T]his new RPI initiative ... can have several benefits. Not only... improving the marketplace for innovation, but also reducing gamesmanship in litigation strategies and improving the operation of the USPTO all around the board. Now with a more complete ownership record the public has more comprehensive understanding of what patent rights are being maintained and by whom. The financial markets have more complete information about the valuable assets being generated and held by patent owners and inventors; manufacturers have a better understanding of the competitive environment in which they are operating, allowing them to be more efficient in obtaining and allocating resources they need. RPI information also could benefit the USPTO.<sup>8</sup>

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<sup>7</sup> FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION 3 (Mar. 2011), available at <http://www.ftc.gov/os/2011/03/110307patentreport.pdf> [hereinafter 2011 FTC EVOLVING IP MARKETPLACE REPORT].

<sup>8</sup> Kappos Opening Remarks, *supra* note 4.

Overall, informational transparency will improve the efficiency of the IP marketplace. In an optimal marketplace for patents, competing technologies would be well known, claims would be well specified, and the applicability of claims would be clear. In addition, the patent rights holders would be easy to determine. As a consequence, firms developing products could weigh the relative merits, likelihood of licensing, and licensing costs of competing technologies and decide whether to license the patented technology, develop a non-infringing competing technology, or omit the covered feature.<sup>9</sup> The current marketplace falls short of this ideal, and the PTO's adoption of RPI rules could help address some of these shortcomings.

RPI rules improve transparency by ensuring that potential licensees can more easily identify who owns and controls the patented technologies to which they want access. This facilitates bilateral licensing by making it easier for users to contract for rights to use certain technologies up front. If the patent owner asks for an excessive royalty at that time, the user may still have the option to redesign its product to use a competing technology or omit the feature claimed in the patent. However, in order for such *ex ante* contracting to occur, potential users have to know with whom to contract. The RPI rules are a step in the right direction to avoid "hold up"<sup>10</sup> issues to the extent that such rules enable technologies to better compete for adoption before potential licensees make significant investments in a particular technology.

As the FTC's 2011 IP Marketplace Report explains,

[a]ssignment records play an important role in clearing patent rights. One 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. This strategy falters if the public lacks notice of assignments. Moreover, if the clearance search determines that a patent is a problem, knowing the owner is essential to seeking a license. Indeed, information on the owner can be essential for a firm to determine if it already has rights to the patent via a cross license. Recordation of assignments would help with these notice problems. ... Recording assignments of government-conferred rights to exclude is necessary to ensure public notice and will not unduly burden patent transfers."<sup>11</sup>

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<sup>9</sup> In contrast to the optimal marketplace, consider an opaque marketplace that provides little notice of what rights exists and who holds those rights. In this case, there are a number of risks of market failure, including the risk that after the choice of technology and unrecoverable investments in product development have been made, rights holders can approach the downstream firm and demand royalties that reflect a "hold up" value.

<sup>10</sup> For a discussion of hold up, *see, e.g.*, Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991 (2007).

<sup>11</sup> 2011 FTC EVOLVING IP MARKETPLACE REPORT, *supra* note 7, 129-30.

One strategy a firm might pursue to extract license revenues that exceed the value of its patent portfolio is to demand royalties for a portfolio of patents held by separate subsidiaries without specifying all of the patents in the portfolio. In such a case, a putative licensee must estimate the relevance and value of a license to the portfolio without accurate or complete information. If the potential licensee cannot find out which patents the asserting entity owns (and thus cannot evaluate the patent's strength or relevance to the licensee's product or business), hold up problems may be exacerbated. Even where a license agreement is reached, a licensee cannot be assured that it has licensed all of the firm's relevant patents – i.e., that patent peace is reached. Excessive license fees and uncertainty about future royalty demands may harm incentives to innovate.

Additionally, and importantly, RPI rules also will improve the ability of the antitrust agencies to monitor the competitive impact of patent acquisitions, especially serial acquisitions in the same market by the same purchaser. The “Broad” and “Limited” definitions of RPI under consideration may not be broad enough to address all information that could be of antitrust concern, such as every entity that may have a financial stake in the enforcement of patents, but the proposed definitions should facilitate this inquiry.

Publication of information is an established part of the *quid pro quo* for obtaining a patent. “In granting an inventor a temporary patent, the public is given permanent and valuable consideration. In exchange for the limited grant, inventors must fully disclose their invention for all the world to see, study, replicate, and make improvements thereon.”<sup>12</sup> Most of the focus on this *quid pro quo* has been on the disclosure of the scientific and technical information in a patent. However, inaccurate ownership information also undermines the policy motives for requiring disclosure and the benefits of notice.

Based on experiences reviewing patent acquisitions, feedback from participants at our December 2012 Patent Assertion Entity (PAE) Activities Workshop,<sup>13</sup> our May 2010 Workshop on the Intersection of Patent Policy and Competition Policy held jointly with the PTO,<sup>14</sup> the FTC's hearings on The Evolving IP Marketplace,<sup>15</sup> and numerous

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<sup>12</sup> See James E. Rogan, Under Sec'y of Com. for Intellectual Prop. & Dir., U.S. Pat. & Trademark Office, Prepared Remarks for the Hearings on Competition and Intellectual Property Law and Policy in the Knowledge-Based Economy 2 (Feb. 6, 2002), available at <http://www.ftc.gov/opp/intellect/rogan.htm>.

<sup>13</sup> See generally Public Workshops: Patent Assertion Entity Activities, U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N (Dec. 2012), available at <http://www.justice.gov/atr/public/workshops/pae/index.html>.

<sup>14</sup> See generally Public Workshops: The Intersection of Patent Policy and Competition Policy Workshop, U.S. DEP'T OF JUSTICE, FED. TRADE COMM'N, & DEP'T OF COMMERCE U.S. PATENT AND TRADEMARK OFFICE. (May 2010), available at <http://www.justice.gov/atr/public/workshops/ip/index.html>.

<sup>15</sup> See generally The Evolving IP Marketplace, FED. TRADE COMM'N, available at <http://www.ftc.gov/bc/workshops/ipmarketplace/>.

interactions with market participants, the Antitrust Division and the FTC believe that the benefits of increased transparency significantly outweigh any potential costs in the market for patents.

### **B. A Robust Definition of RPI Will Promote Competition**

RPI rules must be meaningful if they are going to create the positive effects we envision. Firms should not be able to easily undermine or overcome the purpose of the recordation requirement through a vast web of holding companies and legal subsidiaries, as appears to be an increasingly common practice among certain non-practicing entities. Thus, transparency with respect to simple “ownership” will not capture the complexities of the industry. A meaningful definition of RPI, however, could create transparency that might mitigate some of the problems that we see in the IP marketplace.

The PTO proposed two possible definitions of RPI in its Federal Register Notice. The first is a “Broad” definition that would include entities with the legal right to enforce the patent. This definition would likely include exclusive licensees in certain cases; however, an ultimate parent entity (UPE) may not qualify for this definition if it is not an exclusive licensee and does not have standing to sue.<sup>16</sup> The second, “Limited” definition would require disclosure of “the legal title holder(s) and ‘ultimate parent entity(ies) of the patent application or issued patent.’”<sup>17</sup> An “ultimate parent entity” is “an entity which is not controlled by any other entity,” as defined in the Code of Federal Regulations.<sup>18</sup> The Antitrust Division and the FTC have significant experience with the term UPE and have found it to work well.<sup>19</sup> We support a definition of RPI that includes the UPE, either by including all UPEs in the “Broad” definition, or by adopting the “Narrow” definition. Moreover, the clear benefits of RPI information disclosure support extending the rules to a recordation obligation for each change in RPI. This would ensure accuracy of RPI records between and after collection of maintenance fees.

### **III. Conclusion**

The Antitrust Division and the FTC commend the PTO for its efforts to implement its duty of “dissemination to the public information with respect to patents”<sup>20</sup>

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<sup>16</sup> See, e.g., *Spine Solutions, Inc. v. Medtronic Sofamor Danek USA, Inc.* 620 F.3d 1305, 1317-18 (Fed. Cir. 2010) (holding that an assignee’s parent corporation did not have standing to bring an infringement suit).

<sup>17</sup> 77 Fed. Reg., *supra* note 1, at 70,388.

<sup>18</sup> 16 C.F.R. 801.1(a)(3) . See 77 Fed. Reg., *supra* note 1, at 70,388 for discussion of the PTO’s proposals.

<sup>19</sup> The Agencies have had decades of experience with the concept of ultimate parent entity in carrying out their HSR duties and it has worked well in that context, in part because it helps the Agencies identify the parties of interest in the transaction. UPE is defined in the Premerger Notification Rules, 16 C.F.R. 801.1(a)(3).

<sup>20</sup> 35 U.S.C. § 2(a)(2).

and supports efforts to make public information regarding patent ownership as accurate and complete as possible. The availability of more complete and accurate information regarding the ownership of patents will enable the patent marketplace to function more efficiently. The PTO's proposed changes are likely to improve efficiency in patent notice and licensing and should discourage potential abuses of the process. Thus, the proposals have the potential to stimulate innovation, enhance competition, and increase consumer welfare.