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SENATE JUDICIARY SUBCOMMITTEE ON INTELLECTUAL PROPERTY
Pride in Patent Ownership: The Value of Knowing Who Owns a Patent

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American capitalism is founded on the precept that markets should be open and free.¹ As Louis Brandeis once stated, “Sunlight is said to be the best of disinfectants.”² In this spirit, and going all the way back to the Patent Act of 1790, Congress determined that notice and disclosure are essential tools for encouraging innovation and making innovation markets fairer, more transparent, and more efficient.

Patents are quintessentially a notice system. One who wishes to make a product is supposed to be able to search through the Patent & Trademark Office’s files, identify any patent rights that might be implicated, and appear on the patent holder’s doorstep, hat in hand, asking for a license. Merely asking is no guarantee that a license will be granted. But participants in the process are not expected to dance in the dark.

In fact, notice is considered so critical to the patent system that the government itself undertakes the responsibility of disclosing to the public the boundaries of the patent it has

¹ PORTIONS OF THIS TESTIMONY ARE ADAPTED FROM ROBIN FELDMAN, TRANSPARENCY, 19 VIRGINIA J.L. & TECH. 271 (2014); SEE ALSO ROBIN FELDMAN, INTELLECTUAL PROPERTY WRONGS, 18 STAN. J. L. BUS. & FIN. 250 (2013); TOM EWING & ROBIN FELDMAN, GIANTS AMONG US, 2012 STAN. TECH. L. REV. 1 (2012); ROBIN FELDMAN, TOM EWING & SARA JERUSS, THE AIA 500 EXPANDED: THE EFFECTS OF PATENT MONETIZATION ENTITIES, 17 UCLA J. LAW & TECH. 16 (2013).

² LOUIS D. BRANDEIS, WHAT PUBLICITY CAN DO, HARPER’S WEEKLY, DEC. 20, 1913, AT 10, [HTTPS://3197D6D14B5F19F2F440-5E13D29C4C016CF96CBBFD197C579B45.SSL.CF1.RACKCDN.COM/COLLECTION/PAPERS/1910/1913_12_20_WHAT_PUBLICITY_CA.PDF](https://3197d6d14b5f19f2f440-5e13d29c4c016cf96cbbfd197c579b45.ssl.cf1.rackcdn.com/collection/papers/1910/1913_12_20_WHAT_PUBLICITY_CA.PDF).

granted and the person to whom the government granted the patent. In the interests of transparency, the federal government publicizes not only the full text of the patent and the person who received that initial grant but also the negotiations between the patent holder and the government examiners.

Thus, when our patent system operates properly, people are on notice of the existence, scope, and ownership of a patent.³ This information allows innovators to avoid infringement, negotiate permission, and maximize innovation efficiency.⁴ And providing that information is part of the quid pro quo for receiving an extraordinarily precious patent right from the government in the first place.

Unfortunately, the modern patent system has strayed far from this ideal. Over the last fifteen years, patent markets have begun to resemble the Wild West, with no sheriff in sight. New types of large and complex legal entities have appeared on the scene, including patent aggregators—sometimes called patent trolls—who make no products. Instead, they amass patent rights for the purpose of asserting them against companies who actually do make products. Variations on the theme have developed, including patent buying clubs and product companies that create their own subsidiaries to hold or monetize their patents.⁵

In fact, many companies now place their patents in foreign subsidiaries as a tax avoidance strategy.⁶ When the patent is held in a foreign subsidiary, the company does not pay U.S. tax on the income from the patent but rather pays tax to the foreign government, whose tax rate is lower. Given the scramble to create patent troll shell companies, limited liability companies, and tax avoidance subsidiaries, basic information about patent ownership is getting lost in the stampede.

In the American capitalist system, however, the ability to know who holds an asset and how to reach that party is an essential starting point for any market. This type of information avoids confusion, misinformation, and wasteful transaction costs.

³ BRIAN T. YEH, CONG. RESEARCH SERV., R42668, AN OVERVIEW OF THE “PATENT TROLLS” DEBATE 1 (2013) (CITING JAMES BESSEN & MICHAEL J. MEURER, PATENT FAILURE (2008) AND NOTING, “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”).

⁴ SEE ID.

⁵ FOR AN IN-DEPTH ANALYSIS OF DIFFERENT TYPES OF PATENT TROLLING ENTITIES, SEE MARK A. LEMLEY & A. DOUGLAS MELAMED, MISSING THE FOREST FOR THE TROLLS, 113 COLUM. L. REV. 2117 (2012).

⁶ SEE SENATOR PATRICK LEAHY, LET’S END THE OFFSHORING OF US PATENTS, LAW360, (MAY 14, 2021), [HTTPS://WWW.LAW360.COM/ARTICLES/1385090/LET-S-END-THE-OFFSHORING-OF-US-PATENTS](https://www.law360.com/articles/1385090/let-s-end-the-offshoring-of-us-patents).

Consider the largest patent aggregator, which has estimated holdings of at least 30,000–60,000 patents worldwide.⁷ With this company, there are more than 1,200 associated subsidiaries,⁸ which exist in obscure network relationships with the “parent” company. These layers of shell companies can make it difficult for those who receive patent demands to challenge the validity of the underlying patents or the appropriateness of the patent demand against them. In one case, the company in a lawsuit could not even determine who was asserting the patents against it.⁹

One doesn’t have to be a massive patent aggregator to wreak havoc on unsuspecting companies. Working with just five patents, one company created more than 100 subsidiaries, sending thousands of demand letters to small businesses. Some of the small businesses received letters from more than one subsidiary across time. When the target is a small player with little knowledge of the patent system and patent licensing, the small business can end up making multiple payments to what is essentially the same entity when they have already paid for a license.

Moreover, licenses and settlements by patent assertion entities are typically shrouded in strict nondisclosure agreements, which prevent the parties from revealing anything about the interaction. This secrecy blocks information from filtering into the market that would allow others to understand who is asserting the patent and what territory is being claimed. These agreements result in the loss of both notice and disclosure to the entire marketplace.

To the extent it is difficult for a party accused of infringement to find information, it is even more challenging for those trying to proactively do the right thing, for example, trying to understand if they might need to enter into a licensing arrangement and whom to approach for that license. One cannot rely on publicly recorded information at the PTO because patent holders are able to transfer ownership of their patents without full and timely disclosure to the public or even the Patent Office itself.¹⁰

Even when formal ownership is properly recorded, such information represents the tip of the iceberg. Patent owners can transfer rights sufficient to assert a patent but short of formally transferring ownership. For example, a patent holder could grant an exclusive license to an

⁷ Tom Ewing & Robin Feldman, *The Giants Among Us*, 2012 STAN. TECH. L. REV. 1, 25–35 (2012) (painstakingly tracing 1,200 shell companies related to the aggregator Intellectual Ventures). See also, Nathan Vardi, *After 10 Years, Nathan Myhrvold’s \$3 Billion Of Private Equity Funds Show Big Losses*, FORBES (June 1, 2018) (estimating Intellectual Ventures’ holdings as up to 95,000 patents in 2018).

⁸ See *id.*

⁹ *Id.* at 39–40 (citing No. 11-CV-0671 (N.D. Cal. filed Feb. 14, 2011)) (in which the company filed a declaratory judgment action challenging some of the patents asserted against it, but the judge dismissed some of the parties named on the grounds that the patent owners were really seven other shell companies associated with the aggregator, rather than the ones the company had named).

¹⁰ See, e.g., *id.* (tracing the thousands of shell companies established by a large patent aggregator and noting examples in which patent holders announced a sale to the aggregator but there was no change in ownership recorded at the PTO for many years).

entity. If worded properly, that license would give the entity not only the right to develop a product from the patent but also the right to assert the patent against others.

Given the potential to separate and distribute patent rights in various configurations, identifying who is the “owner” of the right is only the beginning. In light of the convoluted structures involved, understanding the money flow also can be an essential part of understanding who is actually in control.

The ability to know who holds an asset or right and how to reach that party is an essential starting point in any market, particularly patent markets. Making this type of information quickly and publicly available 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.**

It is certainly true that secrecy in business transactions can have tremendous value for those who hold information that others in the market do not have. That, however, is deeply at odds with the foundations of the patent system, as well as society’s economic interests. In a competitive environment, economists generally believe that information is a positive attribute and that information asymmetries lead to market inefficiencies and distortions.

This is particularly appropriate in the case of patents, which are government-conferred grants. One would be hard-pressed to argue that society should tailor a system of government grants in a way that encourages information asymmetry and economic distortion. Most important, processes that take advantage of and dupe the small player are hardly consistent with the goals of the American patent system.¹¹ In short, from a societal perspective, shell companies and lack of disclosure don’t add value; they actually cause confusion and harm.

Information on the various parties who have interests in the patent has implications 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 benefit from being able to identify all the relevant parties. Such information also provides the appropriate framework for holding those with pecuniary interests responsible for damages that may have been imposed in the pursuit of their financial interests.

Some may argue that it will be a burden for patent holders to provide information about ownership and that disputes about the adequacy of information provided will, inevitably, arise. Any costs, however, are likely to pale in comparison to the cost currently being imposed on the marketplace. Shadow boxing is rarely an efficient market sport.

¹¹ Fed. Trade Comm’n & U.S. Dep’t of Just., Patent Assertion Entity Activities Workshop Transcript 65 (Dec. 10, 2012), http://www.ftc.gov/sites/default/files/documents/public_events/Patent%20Assertion%20Entity%20Activities%20Workshop%20pae_transcript.pdf.

Information on the identity of those who hold interests in patents is important from a different societal perspective, as well. As the U.S. patent system currently stands, we have no way of knowing the extent to which foreign interests may control our intellectual capital. These are the crown jewels of our country's economic system, and it would hardly be in the nation's interests if our precious intellectual capital became largely controlled outside the country. And yet, we have no way to know if that is the case.

Of similar concern, studies have suggested that women, in general, and women of color, in particular, are seriously underrepresented in the patent system. Without complete data, we have no idea of the extent to which the government's system of handing out valuable patent rights may be bypassing important segments of our population.

By ensuring the timely publication of all information about patent ownership and interests, the Pride in Patent Ownership Act would help provide information that is essential for all players in the field. I am honored to have the opportunity to discuss the importance of passing this legislation.