

WRITTEN TESTIMONY

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Good afternoon Chairman Leahy, Ranking Member Tillis, members of the Subcommittee on Intellectual Property. Thank you for introducing this legislation and offering me an opportunity to provide my views on patent ownership and funding transparency. I am testifying today solely on my own behalf.

Patent ownership transparency is a topic I have been keenly interested in for 20 years, going back to when I was in corporate practice and found it frustrating to discover a patent that my client may have been licensed to, or one it may have wanted to seek a license under, but not being able to tell who owned the patent. The issue has become more acute in the intervening decades with many more patents being in force, many more owned by hard-to-trace overseas entities, and greater interconnectedness between technologies. The net effect is that patent ownership transparency is more important than ever. Running in parallel with these forces is a new issue—the emergence of state actors

filing or paying for the filing of patents that may exclude 330 million Americans from access to products or services, without visibility to the actors behind these patents.

When I was in the government we also focused on this issue at the USPTO, initiating outreach and seeking comments on actions the government might take to increase transparency around patent ownership.

And in the years since, I have participated in a global effort to increase patent ownership transparency, through a U.K.-based non-profit called OROPO,<sup>1</sup> which provides a platform to enable transparent disclosure of patent ownership. A number of U.S. and overseas companies are members, voluntarily disclosing their ownership interests in the patents to which they own rights. This global effort recognizes that patent ownership transparency is a problem that extends well beyond U.S. borders, impacting innovation worldwide. And the voluntary participation of major companies in OROPO demonstrates that it *is* possible, without major burden, for patent owners to disclose their ownership interests in patents.

With all that focus over two decades, I am pleased to see this legislation, signaling that the time has finally come for patent ownership transparency. And I am pleased to see the U.S. leading. This is an opportunity for us to once again set the gold standard for the global IP system, inviting other countries to follow.

Turning to the legislation itself, it covers the essentials well.

Requiring the disclosure of ownership interests in patents will provide necessary transparency to enable the public to understand who owns rights in U.S. patents, whether

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<sup>1</sup> Open Register of Patent Ownership (ORoPO), <http://oropo.net>.

those owners are domestic or foreign, small or large. This enables parties who need licenses to acquire them, or make informed decisions to avoid infringement.

I applaud the disclosure requirements for patent filings funded by government actors and the paired grant of authority to the USPTO. This bill gives the USPTO explicit authority over patentees that do not disclose a foreign government's funding of their applications or maintenance fees or payment of attorney fees to prosecute their patents. Equipping the USPTO with this authority enables the Agency to ensure we can better understand the extent of foreign government actor influence in our patent system on an ongoing basis.

I also appreciate the inclusion of error notification and correction procedures. An administrative error in a patent should not mark the difference between an inventor recovering damages against a willful infringer versus not. While I'll mention opportunities for further safeguards in a moment, this facet of the legislation provides elements of a process to reduce the likelihood of unfair outcomes to good faith patentees.

I especially like having the USPTO work through the details of determining exactly what creates an interest requiring disclosure. Given the need to get beyond mere "ownership" interests and address "control" that is not necessarily cabined to ownership, the deliberations and approaches used by CFIUS and others who have previously considered these issues can be of tremendous benefit.

I also see it as helpful that the register be made available through a digitally searchable database. Patent transparency is only meaningful to the American public and the global innovation community if it is practically accessible, and a publicly-searchable database ensures that insiders will not be the only ones to benefit from this bill.

I recognize the concerns of independent inventors and small businesses regarding new compliance burdens that can lead to “foot faults” costing them important rights. I think any hard edges in the new law in this regard can be smoothed by providing for fulsome USPTO notifications to small entities, ensuring they have more-than-adequate notice and opportunity to comply with the new ownership disclosure requirement. The USPTO can, and I’m sure will, also put in place automated and ease-of-use measures to make it very straightforward and simple for patentees of all sizes, but especially small entities, to meet the new requirements. And the micro-entity/small-entity status designations in the U.S. patent system already provide good bases for outreach and ongoing support for patentees registered in those categories.

With all the above being said, I’d now like to discuss some aspects of the bill that can benefit from further refinement.

I realize crafting consequences for non-compliance is challenging, but the penalty—loss of recovery for willful infringement—doesn’t feel connected to the recordation requirement. It has the unfortunate consequence of rewarding the most egregious infringers with a windfall. If the willful infringement penalty is retained, one approach to consider in seeking balance and fairness is a requirement for the willful infringer to show that it was prejudiced by the lack of disclosure of ownership, before receiving the benefit of relief from willful infringement consequences.

I also think it would be constructive to consider positive incentives in addition to negative ones. My experience with patent holders is that the vast majority operate in good faith, and respond very conscientiously to positive incentives. We have focused in recent years on penalties for patentees, on the presumption that patentees are the main

abusers of the patent system. We would be wise to move to a more balanced posture, recognizing that parties on all sides of the system engage in strategic behavior, and there are plenty of copyists who are taking advantage of weakened patent rights to infringe valid patents. It would be good to have this bill send a balanced message. Thus, instead of only penalizing those who do not record perfectly with the loss of enhanced damages, the law could also reward patentees when they record ownership promptly and accurately. One way this could be accomplished is through the use of safe harbors for parties acting in good faith. Another option could be to reduce issuance and maintenance fees for patentees who record properly. Penalties could still exist, but they could be reserved for bad faith actors, such as patentees who act fraudulently in the recording process or flagrantly ignore the requirement.

While it is appropriate for the USPTO to work out the implementation details, it is important for the bill itself to provide a North Star for the Agency, by including some specifics regarding the policy objective and the purpose to be achieved by the USPTO's implementation work. This will ensure clarity of mission as the USPTO works at defining what are "certain rights or interests in a patent" that trigger recordation.

The legislation should explicitly charge the USPTO with recognizing that there are many interests affecting patents, which can be complicated to handle in a recordal regime. For instance, equitable interests such as security liens that are commonly taken out when a company secures debt-based financing—should these interests trigger a recordal requirement? I would think not, and this should be made clear. As another example, patents transferred by universities and small businesses frequently have incomplete or no information regarding ownership interests, and that needs to be

accounted for to avoid unnecessarily clouding the value of such patents. Sometimes the acquiror of such patents or the businesses owning them will find the missing information through diligence, and account needs to be taken for opportunities to fix prior mistakes in these situations. Other interests such as options, springing interests, rights of first offer, rights of first refusal, and non-ownership control through board seats, preferred voting rights, and the like need to be considered. Inter-company agreements commonly used to allocate rights and obligations among related companies also need to be accounted for. Just as important as providing examples of interests that do need to be recorded, the USPTO should be charged with enumerating interests that do not need to be recorded. With so many nuances as to what it means to own or control a patent, the bill should provide guidance to the USPTO to ensure its implementation minimizes requirements to make fine legal judgments about what rights to record. Otherwise, we risk the unintended consequence of requiring a legal opinion for the ownership recordal of every patent.

Returning to the error correction component of the bill, the difficulty in defining ownership means that the USPTO will not be able to spot many “errors” without having deep insight into the nuts and bolts of an entity *e.g.*, stock ownership, classes of stock, voting rights, operational control agreements and other parameters that speak to who is actually “in charge” of a patent that is issued or assigned. Thus, it is worth considering, at least during an initial phase-in period, having the USPTO provide an opportunity for patent owners to explain the facts regarding their unique situations and receive guidance as to who they should report as having an ownership interest in a patent. When a patent owner follows the USPTO’s guidance as to how to record the interest, the patent owner

could have access to a safe harbor in case of later challenge. At a minimum, the USPTO should provide a substantial set of examples and recommendations that represent the myriad of different arrangements relevant to patent ownership, and continue to update these examples as on-the-ground experiences dictate. Care needs to be taken so that this recording requirement does not become a technical trap that trips up good faith inventors and effectively diminishes their patent rights.

If the current penalty structure is kept, the error correction and notification process can be expanded to afford opportunities for patentees to cure good faith errors by correcting such erroneous filings, even if they are doing so well beyond the 90-day recordal period. A good faith patentee who makes an honest mistake in recordal, then corrects it promptly after learning of the mistake, should not be foreclosed from remedies against willful infringement. This is good policy, aligning with the purpose of the legislation—to incent accurate recording of patent ownership information.

Finally, I believe the 90-day timeline may be too short in many cases. In the context of M&A and complex deals, assignments are often one piece of a many-part transaction that frequently takes longer than 90 days to close. Small companies that lack the resources to ensure compliance within such a short timeframe when engaging in complex licensing arrangements may also be vulnerable. Consideration should be given to lengthening the recordal time period.

Chairman Leahy, Ranking Member Tillis, and members of the Subcommittee, I have for two decades advocated that patent ownership transparency is good policy. Its time has come, and this legislation can accomplish that policy. To the extent you find it helpful, I would be pleased to assist the Subcommittee as it refines the bill. Thank you

again for your efforts on this legislation to bring world-leading transparency to ownership of U.S. patents. I look forward to addressing your questions.