Senator Thom Tillis
Ranking Member, Senate Judiciary Committee, Subcommittee on Intellectual Property

Questions for the Record
Hearing: Pride in Patent Ownership: The Value of Knowing Who Owns a Patent – October 19, 2021

The Honorable David Kappos, Former Director, United States Patent and Trademark Office, Partner, Cravath, Swaine & Moore LLP

1. Your written testimony addresses several areas for further consideration of our bill, Pride in Patent Ownership. Please share any additional thoughts you may have.
    a. Are there any additional improvements we can make to the operative provisions of our bill? In other words, are there changes we can make that will make our bill function better while furthering our shared goal of transparency?

In addition to the positive incentives I mentioned in my written testimony, another possibility to consider is providing those who properly record increased access to enhanced damages in an infringement action. The purpose of this bill—the reason transparency matters—is to empower responsible companies to take action. Many have focused on one form of action—allowing parties to determine whether a patent is valid, and if they determine it is not, opposing it. But equally as important, action means expecting a party that knows a patent is likely valid to license it from its recorded owner, or avoid infringement. Perhaps it is worthy of further consideration by Congress that where there is a clearly recorded owner and a party fails to obtain a license or avoid infringement, the judge can at least take this into account in assessing willful infringement, and in determining whether to award enhanced damages, and how much to enhance them. Offering some level of presumption would be another way to implement a positive incentive. As other witnesses stated last week — laws need to have teeth. Teeth of this sort would strongly incent patentees to record their ownership quickly and accurately, and also provide balance to the legislation, sending a message to our foreign competitors that the US is serious about protecting the rights of good faith patentees.

    b. Your written testimony refers to the use of safe harbors for those who record ownership promptly and accurately. Could you please elaborate on how that could work?

The bill could afford safe harbor protection in a variety of scenarios. One possibility could be when patentees record their interests in accordance with published examples provided by the USPTO. Another possibility could be to grant a safe harbor to those who record following the guidance of USPTO staff.

The safe harbors would create a presumption that the patentee who is afforded their protection recorded appropriately. For example, if the legislation is adjusted to reserve the loss of willful infringement for patentees who flaunt or intentionally disregard the recording requirement, the safe harbor could establish a presumption of good faith to negate this penalty.

2. Would requiring the ultimate parent company for any patent to be part of the public record create value in the patent system? Why or why not?

In general, my experience demonstrates that the ultimate parent is usually already recorded on patent applications, so in many cases, such a requirement would be consistent with current practice. The value in the ultimate parent recording is that it often provides the public with the entity that is in "ultimate control" of the patent. This is especially important when actors establish a web of parent and subsidiary relationships for the specific purpose of concealing the ultimate parent's identity. Thus, in many cases, I see requiring the ultimate parent to record as helpful.

However, we must be mindful of the fact that there may be situations where such a requirement may not be as beneficial. In some scenarios, this requirement could overly burden patentees. For example, for companies that have overseas parents or where parentage is complicated (like when multiple parents exist or in joint ventures) who constitutes the ultimate parent is hazy. Conversely, there are situations where it is trivial to tell who the ultimate parent is but that information is not helpful in determining who is really in control. For example, if a subsidiary has exclusive rights to a patent that are not shared with the ultimate parent, listing the ultimate parent muddles the public's understanding of who really is in control.

Teasing out these differences of when it is good versus bad policy for an ultimate parent to record is precisely the kind of nuance the USPTO needs to consider to make sure that it is implementing the legislation in a way that maximizes the purposes of transparency while minimizing superfluous burdens.

Lastly, in addition to CFIUS, Dodd Frank contains very sensible and helpful language that gets at this "control" issue, and it should definitely be consulted.

3. Your written testimony recommends the bill provide guidance to the USPTO to ensure its implementation minimizes the need to make fine legal judgments about what rights must be recorded, and include a list of interests that need *not* be recorded under the mandatory provisions of the bill.
   Could you explain why security liens should not trigger a recordation requirement? What are your thoughts as to whether, similar to the Copyright Act, the Patent Act should include "hypothecations" and require recordal at the national level, rather than state, to perfect security interests?

There are thousands of security liens filed every year on patent interests. The vast majority of these liens remain purely contingent, and never confer any control or other rights beyond the foreclosure right to the creditor, so they provide little insight into the creditor's interest in the patent. Additionally, these liens are already normally recorded with the USPTO in its existing ownership/lien recordal registry, and on state registers. Given these facts, the compliance burden of requiring recordation outweighs any benefits of doing so. Perhaps a better approach to use for lien recordal is to simply cross-refer to the USPTO's existing system. Of course, when lien interests do trigger control rights in the situation of default, the USPTO's definition of "certain rights or interests in a patent" should be structured to capture the shifting ownership interests, and require recording then.

Whether recording should be required at the national versus the state level is not something I have studied and is a topic that needs to be separately evaluated. One thing to consider in this analysis could be the compliance burden versus the value of simplifying UCC lien recordal by having it conducted at the federal rather than the state level.

4. Would the transparency provisions in this bill help reduce costly litigation so that companies can invest their resources into research and development and creating new jobs?

As I've discussed, one of the core purposes of this bill is to make it easier for good faith participants in the marketplace to understand who has interests in a patent to facilitate licensing or avoidance. Encouraging licensing incentivizes innovation and encourages parties to proactively deal with patent owners in good faith rather than take a "wait and see" approach that leads to infringement and costly litigation.

5. Would it matter if ownership records or other interests would have to be kept up to date at the patent office, but not disclosed publicly, or disclosed with certain restrictions, like registering an account?

It is my understanding that the intent of this legislation is to make the database publicly searchable, which I do find appropriate and appealing. However, the contours of how this database will work in a variety of different scenarios is another thing the USPTO needs to take input on. There may be legitimate reasons why, at least for a short period of time, a party may want to keep its identity secret, and the USPTO may determine that some accommodation should be made in these circumstances.

6. How can we ensure that the compliance requirements this bill creates do not disproportionately burden independent inventors and small businesses?

A good way to ensure smaller innovators are not overly burdened by this legislation is for the USPTO to target outreach efforts to the entities already classified in its system as "small" and "micro". Regular and repeated outreach to these small and micro entities will go a long way towards assisting in compliance. Also, the USPTO can proactively use its Patents Ombudsman program to support small and micro entities to ensure that they have the resources and advice necessary to comply with the bill.

On a more general level, this bill can help smaller innovators by preventing kafkaesque recording experiences. Two key ways this bill can reduce administrative burdens is to provide clarity to the USPTO on the policy objectives this legislation seeks to achieve, and to establish reasonable time periods for compliance, which I see as warranting more than 90 days.

7. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

There are a variety of ways to reduce errors in the recordation process. First, the USPTO must provide clear instructions to patentees on what interests to record. I've mentioned providing examples as an important way to accomplish this goal. Second, the USPTO can establish a reminder system for patentees to ensure compliance. Third, the USPTO should explore using artificial intelligence to flag potential errors made in good faith at the time recordation is made. Many such errors can be spotted using technology that compiles publicly available information from other sources—SEC filings, public statements, disclosed agreements, the USPTO's own existing ownership/lien recording system, etc. By catching these errors at the source, the USPTO can ensure that they are corrected earlier in time, which will greatly improve the integrity of the entire recordal system.

Senator Marsha Blackburn
Questions for the Record to David J. Kappos
Former Director, USPTO

1. Please discuss the Chinese government's goals, objectives and intentions with patent systems worldwide, as well as in the United States more specifically.

While not a focus of the bill, China and other global competitor nations benefit from the U.S.'s own mis-steps regarding prioritization of innovation. Our laws and public policies have not prioritized innovation in this country. For example, the current state of § 101 jurisprudence is a mess, making it much easier to get a patent covering artificial intelligence in China than the U.S. This is not China's fault; it is our fault. Global investment funds are taking notice and if the current state of affairs continues investors will be more likely to invest in Chinese companies over domestic companies.

As I discuss later, the bill will assist with helping us understand how state actors everywhere may hurt the U.S. position as an innovation leader. But to be truly competitive, we need to have a wider conversation about the revamping of our patent system to encourage innovation in this country.

2. Does the current lack of transparency and inability to track U.S. patent ownership aid intellectual property theft by foreign entities such as China? If so, how would tracking patent ownership alleviate the issue?

The current lack of transparency has directly enabled the emergence of state actors who consistently file or pay for the filing of patents in the U.S., without any ability for us to understand their involvement. The fact that I cannot provide any concrete numbers regarding the level of intellectual property theft currently occurring by foreign entities is a reflection of the necessity for transparency. I believe the bill takes a first big step in addressing the problem—its grant of USPTO authority over patentees which do not disclose a foreign government's funding of their applications or maintenance fees or payment of attorney fees to prosecute their patents should dramatically increase our ability to understand the level of intellectual property theft that is occurring.

3. Previous efforts by the USPTO to establish ownership transparency rules have received some criticism about the cost and complexity of compliance and some privacy concerns. Does the Pride in Patent Ownership Act by Senators Leahy and Tillis address any of those concerns?

While there may be some administrative costs to implementing these rules, I believe the transparency they provide significantly reduces costs currently not being accounted for—most importantly, the cost uncertainty in patent ownership creates. As discussed in my testimony, the bill will permit good faith participants in the marketplace to affirmatively license patents or avoid infringement. Increased licensing creates a positive feedback loop by incentivizing patent ownership, while also directly supporting innovation from the licensee's use of the

patent. Avoiding infringement dramatically reduces occurrences of costly litigation that does not contribute to the innovation engine of this country.

In terms of privacy concerns, there may be sound reasons why a party may want to keep its identity a secret, at least temporarily. That is why I suggest the USPTO take a flexible approach in coming up with a system for accommodation in such circumstances that balances the competing interests in transparency and privacy.

4. What are some reforms related to tracking patent ownership you would like to see? Are there any examples of systems in other countries that work well?

The USPTO should take a technology-first approach in implementing the bill. I greatly encourage the bill's contemplation of making the database publicly searchable, given it balances the privacy interests I mentioned above. I also recommend employing new technology in implementing the legislation, such as blockchain and artificial intelligence, to reduce errors in the recording process and ensure that they are corrected earlier in time.

Outreach efforts are also key, especially for smaller innovators that will need to comply with the bill. The USPTO can leverage its Patents Ombudsman program to support "small" and "micro" businesses (as already classified in its system) to ensure they have the support needed to comply.

5. One of the motivations behind the Pride in Patent Ownership Act is that we should have transparency regarding who the beneficial owner of a patent really is. But it seems that it's also often difficult to know which parties benefit from challenges to patents at the Patent Trial and Appeal Board. If the goal of this legislation is to increase transparency, shouldn't we require reciprocal transparency for parties petitioning the Patent Trial and Appeal Board to challenge patent rights?

While beyond the scope of the bill, I agree it would be positive for our patent system to see more transparency in the disclosure of parties connected to PTAB challenges.