Written Questions for Mr. Allon Stabinsky
Submitted by Senator Patrick Leahy
October 26, 2021

1. You mentioned in your testimony that the lack of patent ownership transparency poses a risk to America's economic security. Companies in other countries can buy U.S. patents, without the public knowing what happened.

   a. **When you have a massive judgment levied against you as a manufacturer, by a foreign entity that does not produce any products, does that cost get passed along to consumers? Is that effectively a hidden tax on American consumers?**

      Defending against patent litigation and the risk of massive legal judgments requires substantial resources that could be directed towards hiring employees, developing innovative new products, or additional manufacturing capabilities. This risk directly impacts operations, research and development, competitiveness, costs, and profitability. With only a few employees and limited operations, patent assertion entities – often backed by investment firms – do not have discovery obligations in litigation as onerous as defendants. Overall, the burden and cost of litigation are generally much greater on defendants than NPEs for a host of reasons; this greater cost is one main reason most defendants settle as a cost of doing business rather than attempt to vindicate their rights in court. The damages awards or settlement payments that NPEs ultimately receive do not get invested in research and development or innovation.

2. If you are shown a patent that covers a new product you want to make, I imagine you would want to know some information about that patent.

   a. **Will you please describe the steps you would have to take under current law to find out who to approach about licensing the patent? How would you figure out who is making decisions and who stands to gain from a license to the patent?**

      It can be difficult to determine who owns a patent, or who controls or funds a patent assertion/litigation entity. Often, research to determine corporate structures, and analysis of corporate formation documents and patent assignment records are necessary to determine who owns a specific patent being actively asserted in patent assertions and litigation. At times, it is only possible to get this information through discovery in litigation, and even then it is often unclear whether the relevant information has been fully disclosed. *See, e.g*, *VLSI Technology LLC v. Intel Corp.*, 18-cv-966, Dkt. 975 (D. Del. Aug. 1, 2022) (staying litigation due to plaintiff's non-compliance with Standing Order requiring disclosure of owners, members, and partners of a party).

   b. **Have you experienced a situation where you found out the owner of a patent only to discover that you already had a license to the patent?**

      Yes, situations have occurred where a party acquires patents and asserts

them against an operating company despite the fact that the operating company holds a license from the previous owner. This is an area where transparency in the chain of ownership would be helpful.

3. Some argue that, while transparency in patent ownership broadly makes sense, it is overly burdensome to have to record when a patent is transferred internally within a company, and any transparency rule should excuse intra-company transfers.

   a. **Will you briefly describe the compliance requirements, for example with the Securities and Exchange Commission, when a company sets up a new subsidiary to hold its patents, and how much more work for a company's compliance officers will be added by having to record the transfer with the U.S. Patent and Trademark Office?**

   A parent company that establishes an intellectual property holding company as a wholly-owned subsidiary will transfer ownership of its patent portfolio to this new entity, which then controls the patent assets. The parent company must approve the creation of the IP holding company and make any required filings with the SEC. Recording the transfer of a patent with the U.S. Patent and Trademark Office costs approximately $150 and adds approximately ½ hour of work, as compared to the average cost of filing a patent application of approximately $8,000 to $10,000 and lifetime costs of approximately $20,000 to $30,000.

   b. **Why might the public have an interest in intra-company transfers of patents, whether they are subsidiaries within the United States or in different countries?**

   Patent assertion entities often use an intricate web of shell companies and secret agreements to conceal their activities. The assertion of patents by these NPEs often involves complex corporate structures used to obscure financial interests in the litigation. It is common in tech patent litigation for a company to be repeatedly attacked by different shell companies set up by a single beneficial owner or investor to hold discrete sets of patents. Lack of transparency often obscures who the true opponent is. Fortress Investment Group, Softbank, and IPEdge have used such structures in patent assertion campaigns. Defendants and fact finders are often unaware of who is behind such assertions. Enhanced transparency would boost accountability, reduce the incentive for abusive litigation, and allow policymakers to assess the scope of the problem as well as the entities behind it so that they could develop effective public policy responses.

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

Allon Stabinsky, Senior Vice President
Chief Deputy General Counsel, Intel Legal Department

1. Please share your thoughts on our bill, Pride in Patent Ownership.

   The Pride in Patent Ownership Act is an important and long overdue first step, and it will go a long way towards helping us identify the scope of the problem of abuses of our legal system with respect to patents. Our economic growth and national security are threatened by professional litigants who hold secret limited monopolies and are only interested in patent litigation as an investment class.

2. 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?

   While the Pride in Patent Ownership Act does not solve all problems posed by abusive patent litigation and third-party litigation funding, it's an important first step. Addressing third-party litigation funders that treat U.S. courts as financial commodities, use the risk and cost of litigation to extort settlements from operating companies who can't afford to vindicate their rights in court, and seek excessive damages awards that invite this abuse is equally important. Disclosure in litigation is also important. Although some courts have local rules about such disclosure, more uniform and widespread rules would be extremely beneficial. Finally, monetization of judgments in patent cases using judgment preservation insurance allows plaintiffs to profit even if the judgment is overturned on appeal. I stand ready to work with you in addressing these issues.

3. What are your views on requiring mandatory reporting of certain ownership interests at the USPTO?

   A requirement to report certain ownership interests to the USPTO would shine a light on the true nature of most patent transfers and assertions in the technology sector today. This reporting requirement would illuminate the predominance of investment-based patent transfers that have nothing to do with operating innovators protecting their intellectual property from infringement – the intended use of these remedies. It is common practice to use ambiguously named shell companies, often with names similar to historical operating companies, in an attempt to use those companies' remaining good will. This practice also conceals the fact that the ultimate parent company is a hedge fund using a specific patent infringement litigation as an asset class. Policymakers would gain important insights from these reporting requirements as to the effects these practices have on national security and economic growth.

4. 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?

   Yes. As noted above, there are important public policy reasons for requiring such transparency. But even from a business perspective, it is important as it promotes efficiency in the system. For example, non-practicing entities frequently use distinct entities in their lawsuits, which among other things, allows them to hide any relation to a former patent owner from which the defendant might have a license to use the disputed technology (in which case such license would vitiate their suit). Disclosure of the parent company and the chain of custody of the patent would promote efficiency and fairness in allowing the

defendant and the courts to ascertain from the outset whether they held a license to the disputed technology.

5. Are there some interests that should be recorded, but not public?

   There are potentially some national security-related instances in which the U.S. government may prefer that some interests not be recorded publicly. Such instances would likely be extremely rare and involve classified or other sensitive technology.

6. 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?

   Yes.

7. Would it matter if ownership records 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?

   Patent rights preclude the public from making, using, or selling the invention in question; therefore, the default position should be that the public has a right to know who has an ownership interest in the technology in question. If the patent office requires full disclosure of the invention as part of the quid pro quo for obtaining patent protection, certainly disclosure of beneficial ownership should be required as well.

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

   Complying with the requirements of this bill would impose only modest costs on patent owners. Recording the transfer of a patent with the U.S. Patent and Trademark Office costs approximately $150 and adds approximately ½ hour of work, as compared to the average cost of filing a patent application of approximately $8,000 to $10,000 and lifetime costs of approximately $20,000 to $30,000.

9. Can you provide some specific examples of the various types of interests affecting patents that the USPTO should consider?

   The definition of ownership interests should be construed broadly, to at least include entities which can direct or approve litigation involving the patent.

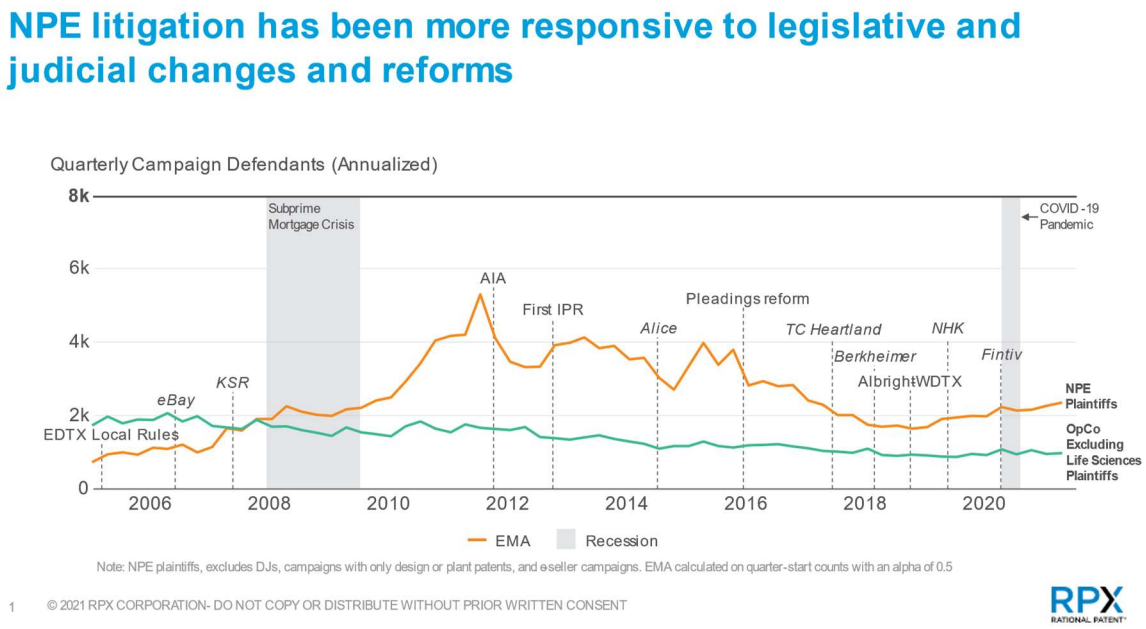
10. Do you have any recommendations for how the USPTO can reduce errors in the recordation process?

    Meaningful penalties for non-compliance would likely be effective in ensuring interested parties keep recordations up to date. In addition, a requirement to keep recordation information current in order to have standing to sue would likely be highly effective.

Senator Marsha Blackburn
Questions for the Record to Allon Stabinsky
Chief Deputy General Counsel, Intel

1. Intellectual property theft continues to be a problem for our innovative industries. Is IP theft a major issue for your company and organization? What impact has it had on the businesses you represent?

   As a company with innovation at its core, the intellectual property that underlies our innovation is central to our business. By threatening competitiveness, IP theft creates significant risk for Intel, and we spend considerable resources guarding against it. Much more predominant than IP theft today, however, is the misuse of the U.S. patent litigation system by investors to extort settlements and press excessive damages demands on successful contributors to the economy. The rise of hedge funds and other financial entities that aggregate low-quality patents and use them to sue U.S operating companies, using U.S. courts as a financial commodity rather than a source of justice, now accounts for twice the litigation activity of competitor-to-competitor litigation to address IP misappropriation. The resources technology operating companies spend on combatting this rising scourge would be better spent on paying employees and building facilities to develop the next generation of microchips.



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?

Currently, it is impossible for the American public to know the true owner of a patent. This lack of transparency leaves America vulnerable, exposing strategic U.S. industries to economic and national security risks from foreign actors. Many foreign actors are turning to U.S. patent litigation and assertions as an investment vehicle. Intel's current litigation campaign against Softbank of Japan's affiliate Fortress, is being prosecuted by investment funds owned by undisclosed sovereign wealth funds (among other investors). In the past, Intel has also been forced to defend itself from patent cases filed by a patent fund sponsored by the Japanese government, IP Bridge, as well as from patent cases from corporate entities associated with Magnetar Capital, a hedge fund headquartered in Evanston, Illinois. Transparency in ownership would be an important first step to identifying the scope of this problem and closing the knowledge gap. Once we know who the real parties in interest are in patent litigation, we can hold the entities behind them accountable.

3. There is an idea that a registry of patent ownership interests can benefit patent licensees by creating transparency about who owns what patents. Despite concerns about compliance and privacy, could tracking patent ownership information ease commerce and perhaps avoid some litigation over licenses and rights?

   A requirement to report certain ownership interests to the USPTO would be helpful to understand who is behind the patents that are being asserted in litigation or licensing demands. This transparency would dramatically reduce the incentive to abuse the legal system through meritless patent infringement litigation. Free of this burden, operating companies would be able to focus on the business of innovation, which would benefit the entire U.S. economy. Transparency would also be helpful to policymakers in identifying inaccuracies about reforms allegedly hurting "innovators" or "small investors." The reality of what entities are active in this space pursuing operating companies in the technology industry is much different. These important insights would also inform U.S. policymakers regarding implications for national security and economic growth.