



The American Antitrust Institute

January 25, 2012

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Re: Comment of the American Antitrust Institute

The American Antitrust Institute (AAI) appreciates the opportunity to comment on the Patent and Trademark Office's (PTO's) proposed requirements for recordation of real-party-in-interest (RPI) information throughout application pendency and patent term.<sup>1</sup> The AAI is an independent and nonprofit education, research, and advocacy organization whose mission is to advance the role of competition in the economy, protect consumers, and sustain the vitality of the antitrust laws. The AAI is managed by its Board of Directors with the guidance of an Advisory Board consisting of approximately 130 prominent antitrust lawyers, law professors, economists, and business experts.<sup>2</sup> The AAI has long been involved in issues at the intersection between competition and intellectual property law regimes.<sup>3</sup>

The AAI agrees with Director Kappos that patents are “a key driver of economic growth, exports, and job creation.”<sup>4</sup> Patent rights can be seen as “the global currency for creating value for products and services, for all innovators.”<sup>5</sup> A well-functioning patent system will substantially facilitate innovation and market competition. And competition policy safeguards against abuses of patent rights. The AAI applauds the recent moves by the PTO to highlight the importance of competition issues in the current patent system, including its joint policy statement with the Department of

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<sup>1</sup> Notice of Public Roundtable and Request for Comments, 77 Fed. Reg. 70385 (November 26, 2012).

<sup>2</sup> AAI's Board of Directors alone has approved this filing for AAI. The individual views of members of the Advisory Board may differ from AAI's positions.

<sup>3</sup> For a description of AAI activities, research, and analysis, see *American Antitrust Institute*, [www.antitrustinstitute.org](http://www.antitrustinstitute.org).

<sup>4</sup> David Kappos, Director, U.S. Patent & Trademark Office, Keynote Address at the Center for American Progress: An Examination of Software Patents (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).

<sup>5</sup> *Id.*

Justice on standard-essential patents subject to F/RAND commitments,<sup>6</sup> the Roundtable on RPI information,<sup>7</sup> and this proposed rulemaking.

Transparency is crucial to our patent system so that it can fulfill its function of public notice as well as promoting innovation and competition. The AAI encourages the PTO to consider requiring a filing in connection with every ownership change after a patent is issued (excepting only intra-corporate changes), similar to the requirement for recording every change in ownership of real property. A complete patent ownership record can help operating companies, both incumbents and potential new entrants, manage their legal risk and reduce their search costs. Incumbents can then better focus on innovation and development without being distracted by unexpected and even baseless lawsuits. Potential new entrants can launch their products free from worries that “trolls” might be waiting to catch them. They can also make informed decisions whether to seek patent licenses or to invent around, knowing whether any necessary patents are held by license-friendly or license-unfriendly companies. Both incumbents and potential new entrants would easily locate the patent holder of any patented technology they would like to license. As the PTO stated in its Federal Register Notice, “[m]arkets operate most efficiently when buyers and sellers can find one another.”<sup>8</sup>

Recordation of RPI can materially mitigate the hold-up problem in the standard-setting process. The hold-up problem occurs when a company fails to disclose that it owns a patent or several patents essential to a proposed standard during the standard setting process, and then, after the standard is adopted, refuses to license those patents (SEPs) on reasonable terms. Such a company may also hold those patent(s) in its subsidiaries or some shell companies it has created. In this way, even if the standard-setting organization (SSO) requires and effectively enforces patent ownership disclosures, it may still be difficult for a would-be implementer of the standard in question to discover who actually benefits from the standardization process. As a policy matter, it is very important to track where the money goes, for an effective patent system should maximize the extent to which revenues secured by patent rights are used to reward innovation and thereby promote “the Progress of Science and useful Arts.”<sup>9</sup> If the PTO’s proposed rulemaking comes into effect, the public (not only SSOs and their members) can find out who the RPIs are with respect to the possible SEPs before a standard is set, thereby reducing hold-up risks.

Disclosure of RPI can also reduce the risk of anticompetitive effects from various practices of patent assertion entities (PAEs) because those PAE practices largely depend on ownership secrecy. The Federal Trade Commission (FTC) and Department of Justice on December 10, 2012 jointly held a workshop on the issues surrounding PAE practices (the PAE workshop).<sup>10</sup> PAEs refer to companies that do not intend to practice patents. Rather, their business model is to purchase and

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<sup>6</sup> ANTITRUST DIV., U.S. DEP’T OF JUSTICE & U.S. PATENT & TRADEMARK OFFICE, POLICY STATEMENT ON REMEDIES FOR STANDARD-ESSENTIAL PATENTS SUBJECT TO VOLUNTARY F/RAND COMMITMENTS 8 (2013), *available at* <http://www.justice.gov/atr/public/guidelines/290994.pdf>.

<sup>7</sup> *Roundtable on Proposed Requirements for Recordation of Real-Party-in-Interest Information*, U.S. PATENT & TRADEMARK OFFICE, [http://www.uspto.gov/ip/officechiefecon/roundtable\\_01-11-2013.jsp](http://www.uspto.gov/ip/officechiefecon/roundtable_01-11-2013.jsp).

<sup>8</sup> Notice of Public Roundtable and Request for Comments, 77 Fed. Reg. 70385, 70386 (November 26, 2012).

<sup>9</sup> U.S. CONST. art. I, § 8, cl. 8.

<sup>10</sup> *Patent Assertion Entities Workshop*, FED. TRADE COMM’N, <http://www.ftc.gov/opp/workshops/pae/>.

hold patents to use for asserting them in court or threatening to do so in order to obtain large license fees from operators who need the patents. (They have another, less favorable name: “patent trolls.”) PAEs can pursue more aggressive patent assertions because, unlike operating companies, they do not have to worry about counterattacks by respondents or reputational constraints. If patent wars between practicing entities or operating companies can be called “mutually assured destruction,” in the PAE context, “mutually assured” has been separated from “destruction.”

There are several types of PAEs raising competition concerns. For example, Intellectual Ventures (IV) is a pure PAE. It sees patents as its investments and has created many shell companies to hold its patents. It apparently never discloses its patent portfolio because, as it argued during the PAE workshop, generally no investor would like to disclose his or her investment portfolio.<sup>11</sup> It vigorously pursue ex post patent enforcement actions because its targets in these actions, facing high switching costs and lock-in effects, are more likely to surrender. In fact, at the workshop, several operating companies complained that PAEs hid their patents throughout license negotiations driven by litigation threats.<sup>12</sup> Another example would be MobileMedia. It was created by Nokia, Sony and a licensing group called MPEG-LA. Its founders transferred their patents to it.<sup>13</sup> MobileMedia recently achieved a big victory in Delaware, where a federal court found Apple infringed its patents.<sup>14</sup> If Nokia and Sony were to sue Apple under their own names, they might face Apple counterclaims and reputational constraints.

These PAE practices have posed serious threats to competition. FTC Chairman Jon Leibowitz in his opening remarks at the PAE workshop, warned that the FTC may treat PAEs’ refusals to disclose their patent ownership as an “unfair” or “deceptive” act or practice under Section 5 of the Federal Trade Commission Act and disclosure obligation could therefore be imposed through an FTC rulemaking proceeding.<sup>15</sup> AAI believes that requiring disclosure of RPIs in the manner that the PTO now proposes will help deal with the PAE problem. With the new rule, the public can find out what patents IV or any other PAE has under various names and its potential targets can prepare accordingly in advance to resist its attacks on the merits. With clear and reliable ownership information, a patent settlement can be more likely to bring peace because the parties know what they are settling for. The new rule can also help to pierce the PAE veil and reveal operating companies hiding behind it, so they will confront counterattacks as well as reputational constraints again.

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<sup>11</sup> *About Us*, INTELLECTUAL VENTURES, <http://www.intellectualventures.com/index.php/about>.

<sup>12</sup> Robert A. Skitol, *FTC-DOJ Workshop on Patent Assertion Entity Activities: Fresh Thinking on Potential Antitrust Responses to Abusive Patent Troll Enforcement Practices*, DRINKER BIDDLE & REATH LLP (Dec. 14, 2012), <http://www.drinkerbiddle.com/resources/publications/2012/ftc-doj-patents-workshop>.

<sup>13</sup> Ryan Davis, *Apple iPhones Flout Patents Tied to Sony, Nokia, Jury Says*, LAW360 (Dec. 13, 2012), <http://www.law360.com/articles/401398/apple-iphones-flout-patents-tied-to-sony-nokia-jury-says>.

<sup>14</sup> *Id.*

<sup>15</sup> Skitol, *supra* note 12; *See also* Jon Leibowitz, Chairman, Fed. Trade Comm’n, Patent Assertion Entities Workshop Opening Remarks of FTC Chairman Jon Leibowitz as Prepared for Delivery (Dec. 10, 2012), *available at* <http://www.ftc.gov/speeches/leibowitz/121210paeworkshop.pdf>.

Updates of complete and accurate patent ownership information can give notice to and assist the antitrust agencies in their investigations of acquisitions involving transfers of patent portfolios. When an entity acquires patents, a Hart-Scott-Rodino (HSR) filing may or may not be necessary depending on the size of the transaction.<sup>16</sup> Filings of up-to-date patent ownership information at the PTO will inform the antitrust agencies so they can start to assess potential anticompetitive effects of patent transfers even absent an HSR filing. This is all the more valuable because patent transfers are becoming more and more complex. For example, Rockstar Bidco LP was originally a group created by Apple, Microsoft, Sony, Research in Motion, Ericsson, and EMC to bid for the bankrupt Nortel's patent portfolio.<sup>17</sup> It successfully acquired Nortel's 6,000 patents for \$4.5 billion in June 2011.<sup>18</sup> Before clearing the deal, the Department of Justice obtained assurances from Apple and Microsoft that they would license SEPs within the acquired portfolio under F/RAND (fair, reasonable and non-discriminatory) terms to anyone who needed them.<sup>19</sup> However, thereafter, 4,000 of the patents in the portfolio were transferred to a new entity, Rockstar Consortium Inc., and its CEO reportedly claimed that the promises made by the individual companies would not bind the new entity.<sup>20</sup> With the PTO's new rule in place, it would be more difficult for companies to play these kinds of ownership change tricks to evade or undercut antitrust agency conditions or remedies.

All of the above practices may raise operating companies' costs and consumers will eventually bear the burden. The new PTO rule, in helping to stop these practices, will thereby enhance consumer welfare. AAI encourages the PTO to take these competition policy and consumer welfare benefits into account when crafting the details of its new rule.

Respectfully submitted,



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<sup>16</sup> See WHAT IS THE PREMERGER NOTIFICATION SYSTEM? AN OVERVIEW, FED. TRADE COMM'N 2-6 (2009).

<sup>17</sup> Robert McMillan, *How Apple and Microsoft Armed 4,000 Patent Warheads*, WIRED, May 21, 2012, <http://www.wired.com/wiredenterprise/2012/05/rockstar/>. EMC later dropped out.

<sup>18</sup> *Id.*

<sup>19</sup> McMillan, *supra* note 17; Albert A. Foer, *Letter to Christine A. Varney, Assistant Att'y Gen., Antitrust Div., U.S. Dep't of Justice*, AM. ANTITRUST INST. (July 6, 2011), available at <http://www.antitrustinstitute.org/~antitrust/sites/default/files/Nortel%20letter%20to%20DOJ.7.6.11.pdf>

<sup>20</sup> *Id.*