Challenging Anticompetitive Acquisitions and Enforcement of Patents *

While the enforcement of valid patents can play an important part in fostering innovation and competition, patent policy often works at odds with sound competition policy. As the Federal Trade Commission (FTC) recognized in its path-breaking 2003 report, "ever greater intellectual property protection is not necessarily socially beneficial," and "[a] failure to strike the appropriate balance between competition and patent law and policy can harm innovation."[1] The problem is particularly acute in the information technology and communications sectors, where excessive patent rights and remedies, coupled with abusive enforcement strategies, have imposed significant costs on the economy.[2]

The FTC and the Antitrust Division of the Department of Justice (collectively, the Agencies) have taken on an important advocacy role in advancing the competition and consumer interests in patent policy, a development the AAI applauds. The Agencies have been particularly active (in advocacy and enforcement) in addressing two particular, intersecting areas of concern: (a) holdup strategies involving standard-essential patents ("SEPs") and (b) patent assertion entities ("PAEs") whose business model entails acquiring massive patent portfolios to be asserted against businesses that are already using and dependent upon the technologies covered by those aggregations. Although the

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[1] FED. TRADE COMM'N, TO PROMOTE INNOVATION: THE PROPER BALANCE OF COMPETITION AND PATENT POLICY 3, 14 (October 2003).

[2] *See, e.g.*, Fiona M. Scott Morton & Carl Shapiro, *Strategic Patent Acquisition*s, 79 ANTITRUST L.J. 463, 470-79 (2014) (cataloguing strategic behaviors that enable patentees to extract excessive rents from downstream firms, including seeking injunctions or exclusion orders on standard-essential patents, suing end-use consumers, timing infringement suits to a target's initial public offering, reneging on fair, reasonable, non-discriminatory ("FRAND") license commitments, gaming infringers through secrecy around the contents of large patent portfolios, royalty stacking, and nuisance suits); EXECUTIVE OFFICE OF THE PRESIDENT, PATENT ASSERTION AND U.S. INNOVATION 9-10 (June 2013), https://www.whitehouse.gov/sites/default/files/docs/patent_report.pdf (citing studies and dollar figures showing "direct costs to firms that practice patents" and "forgone technology transfer and commercialization of patented technology" caused by patentees' strategic behavior); William F. Lee & A. Douglas Melamed, *Breaking the Vicious Cycle of Patent Damages*, 101 CORNELL L. REV. 385, 466 (2016) ("lock-in premiums inflate damages awards; these awards, together with the threat of an injunction or exclusion order, increase royalties in ex post licenses negotiated in the shadow of litigation; and these increased royalties, in turn, drive future damages awards because negotiated license rates are a key factor in computing a reasonable royalty").

Agencies are on the right track, more can be done in terms of advocacy and enforcement to ensure that patents promote rather than stifle innovation.

MAJOR RECOMMENDATIONS

We make the following recommendations:

- **The Agencies should continue and expand their advocacy on patent policy to ensure that it promotes competition, innovation, and consumer welfare.**

- **The Agencies should continue to aggressively challenge anticompetitive holdup conduct by SEP owners**.

- **The Agencies should act on AAI's Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations ("SSOs"), adopting the principle that SSOs should be liable for the anticompetitive effects of holdup conduct enabled by inadequate SSO patent policies.**

- **The Agencies should aggressively challenge abusive patent enforcement strategies by PAEs.**

- **The Agencies should challenge PAEs' patent portfolio aggregations and disaggregations that create and enable the exercise of market power under Section 7 of the Clayton Act and Sections 1 and 2 of the Sherman Act.**

- **The Agencies should support legislation that requires more transparency by PAEs regarding patent ownership and assignments, grounds for assertions of patent infringement, and related matters.**

- **The Agencies should look for opportunities to clarify and develop the law to restrict the application of *Noerr-Pennington* immunity when SEP owners and PAEs engage in abusive patent enforcement conduct.**

We explain our bases for these recommendations below.

I. Patent Policy and Competition

The Agencies should continue and expand their advocacy on patent policy to ensure that it promotes competition, innovation, and consumer welfare.

In recent years, the FTC and the Antitrust Division have invested significant resources in holding hearings and preparing reports and recommendations to improve the patent system to enhance consumer welfare and promote innovation. Among other things, reports have focused on ways to improve patent quality, align remedies with the value of an invention, improve patent notice, and ensure a proper balance between patent and antitrust law.[3] We agree wholeheartedly with the ABA Antitrust Section that the Agencies "should be the ambassadors of a consumer-welfare-focused view of patent policy to the courts, other federal entities . . . and the public at large."[4] This is particularly important because, as Professor Hovenkamp has recently pointed out, "The intellectual property laws, but particularly copyright and patent, are among the most captured regimes in the American legal system today. By and large, Congress has listened to producers while paying little attention to the voices of consumers. One consequence of this is that patent law has not developed any equivalent to the 'consumer welfare' prescription that has become so central to antitrust analysis."[5]

The FTC's ability to file amicus briefs in the courts of appeal on its own initiative makes it particularly well suited to advance a pro-competition perspective on intellectual property matters in those courts.[6] Building upon its research and reports, the FTC ought to increase its advocacy on patent matters in the Federal Circuit. For example, on patent remedies, the FTC has emphasized that, "[t]o align the patent system and competition policy, it is important that compensatory damages and injunctions be assessed in a manner that aligns a patentee's compensation with the invention's economic value."[7] The FTC has recognized the difficulties in hewing to this principle when a patent covers a minor component of an infringing product, which is typical of patents in IT industries, where thousands if not hundreds of thousands of patents may read on an infringing product.[8] In

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[3] *See supra* note 1; *see also* FED. TRADE COMM'N, THE EVOLVING IP MARKETPLACE: ALIGNING PATENT NOTICE AND REMEDIES WITH COMPETITION (March 2011) [hereinafter "2011 FTC IP REPORT"]; U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST ENFORCEMENT AND INTELLECTUAL PROPERTY RIGHTS: PROMOTING INNOVATION AND COMPETITION (April 2007); U.S. DEP'T OF JUSTICE & FED. TRADE COMM'N, ANTITRUST GUIDELINES FOR THE LICENSING OF INTELLECTUAL PROPERTY (1995).

[4] AM. BAR ASS'N, SECTION OF ANTITRUST LAW, PRESIDENTIAL TRANSITION REPORT: THE STATE OF ANTITRUST ENFORCEMENT 2012 34 (Feb. 2013); *see id.* ("The Agencies should promote the accommodation of greater concerns about competition policy into patent policy, and, where appropriate, should encourage the federal courts to take competition issues into account in cases involving patent scope and remedies.").

[5] Herbert Hovenkamp, *Antitrust and the Patent System: A Reexamination*, 76 OHIO ST. L.J. 467, 483 (2015).

[6] In contrast, amicus briefs by the Antitrust Division in the appeals courts must be approved by the Solicitor General and coordinated with other federal agencies, notably the Patent and Trademark Office.

[7] 2011 FTC IP REPORT, *supra* note 3, at 141.

[8] *See* Mark A. Lemley & A. Douglas Melamed, *Missing the Forest for the Trolls*, 113 COLUM. L. REV. 2117, 2147-49 & n.133 (2013).

these circumstances, injunctions are more likely to facilitate holdup or protect a patentee from harm due to legitimate competition, and royalty awards may not reflect ex ante design alternatives or royalty-stacking concerns.[9] The FTC has articulated these concerns in cases involving injunctions for infringement of standard-essential patents,[10] but should press its advocacy on patent remedies more generally.[11]

II. Standard-Essential Patents

The Agencies should continue to aggressively challenge anticompetitive holdup conduct by SEP owners.

Collaboratively set industry standards have become a prominent feature of many parts of the economy. Particularly throughout the information technology and communications sectors, it has become common for these standards to incorporate patented technologies. The patents covering those technologies thereby become standard-essential patents. When SEPs are meaningfully available to all interested parties for licensing on reasonable terms and conditions, they and the standards that make use of them can promote competition, interoperability, and innovation. But SEPs also provide opportunities for exploitation of an installed base of locked-in users, providing opportunities to achieve and exercise market power through what has been called "installed base oportunism."[12] These holdup strategies enable SEP owners to extract monopoly rents, raise rivals' costs, or exclude them altogether from the affected markets.

Incomplete and poorly defined policies of standard-setting organizations have enabled holdup strategies and outcomes. Many SSO patent policies have been inadequate on multiple grounds. First, some SSOs have not effectively required participants to make reasonable efforts to identify and disclose patents that may become SEPs within standards under development during the course of the

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[9] 2011 FTC IP REPORT, *supra* note 3, at 189-91, 225-27, 230; Mark A. Lemley & Carl Shapiro, *Patent Holdup and Royalty Stacking*, 85 TEX. L. REV. 1991, 2010-17 (2007). The FTC has also advised that "the practical difficulty of identifying a royalty rate that accurately reflects the invention's contribution to a much larger complex product counsels toward choosing the smallest priceable component that incorporates the invention." 2011 FTC IP REPORT, *supra* note 3, at 25.

[10] *See* Brief of Amicus Curiae Fed. Trade Comm'n Supporting Neither Party, Apple Inc. v. Motorola, Inc., 757 F.3d 1286 (Fed. Cir. 2014) (No. 2012-1548).

[11] This is not to say that the Agencies should devote fewer resources to ensuring that antitrust law is given proper weight in conflicts between antitrust and patent law. *See* Fed. Trade Comm'n v. Actavis, 133 S. Ct. 2223, 2231 (2013) ("[I]t would be incongruous to determine antitrust legality by measuring the [conduct's] anticompetitive effects solely against patent law policy, rather than by measuring them against procompetitive antitrust policies as well. . . . [P]atent and antitrust policies are both relevant in determining the 'scope of the patent monopoly'—and consequently antitrust law immunity—that is conferred by a patent.").

[12] *See* Steven C. Salop, *The First Principles Approach to Antitrust,* Kodak, *and Antitrust at the Millennium*, 68 ANTITRUST L.J. 187, 188 (2000-01) (referring to "the *Kodak* plaintiffs' installed base opportunism theory of anticompetitive harm" in *Eastman Kodak Co. v. Image Technical Servs. Inc.*, 504 U.S. 451 (1992)).

standard-setting process. Second, while many SSOs require or encourage patent owners to commit to "reasonable and non-discriminatory" (RAND) license terms before their patents can become SEPs, most of them fail to define what RAND means in practical terms. Third, a RAND license commitment can become meaningless when, notwithstanding the seeming license commitment, the SEP owner remains free to enforce its patent rights by seeking injunctive relief in court or an exclusion order from the International Trade Commission ("ITC") against willing licensees. Fourth, SSOs often fail to protect against situations where a SEP owner subject to a RAND commitment assigns the SEP to another party without that new owner's acceptance of any license obligation.

The FTC has a long history of enforcement actions under Section 5 of the FTC Act against SEP owners' holdup conduct.[13] Most recently, in 2012-2013, it issued complaints and consent orders against Google/Motorola and Robert Bosch GmbH on allegations of reneging on RAND commitments by seeking injunctions against willing licensees.[14] Also in 2012, the Department of Justice ("DOJ") announced its extraction of assurances from Google, Apple, Microsoft, and Research in Motion in connection with their acquisitions of patent portfolios that included SEPs subject to RAND commitments. These parties satisfied DOJ that they would adhere to the prior owners' RAND obligations and that this would include commitments not to seek injunctions in disputes over RAND terms.[15]

Both agencies have evinced particular concern over SEP owners' petitions to the International Trade Commission ("ITC") for exclusion orders barring imports of infringing products. DOJ did so in a 2013 policy statement (co-authored by the U.S. Patent and Trademark Office) urging the ITC not to issue any such order against a party willing to accept a RAND license.[16] The FTC did so in a 2015 submission to the ITC arguing that a SEP owner seeking any such relief should bear the burden of proof that "the implementer is unwilling or unable to take a [RAND] license."[17]

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[13] *See* Dell Computer Corp., 121 FTC 616 (1996); Union Oil Company of California, 138 FTC 1 (2004); Rambus, Inc., 2006 FTC LEXIS 101 (Aug. 20, 2006), *rev'd*, Rambus Inc. v. Fed. Trade Comm'n, 522 F.3d 456 (D.C. Cir. 2008); Negotiated Data Solutions LLC, Decision & Order (Sep. 22, 2008), https://www.ftc.gov/os/caselist/0510094/index.shtm.

[14] Motorola Mobility, LLC and Google Inc., FTC File No. 121-0120, https://www.ftc.gov/os/caselist/1210120/-index.shtm; Robert Bosch GmbH, FTC File No. 121-0081, https://www.ftc.gov/os/caselist/1210081/index.shtm.

[15] Statement of the Department of Justice's Antitrust Division on its Decision to Close its Investigations of Google Inc.'s Acquisition of Motorola Mobility Holdings Inc. and the Acquisitions of Certain Patents by Apple Inc., Microsoft Corp. and Research in Motion Ltd., http://www.justice.gov/atr/public/press_releases/2012/280190.htm.

[16] U.S. Dep't of Justice & U.S. Patent and Trademark Office, Policy Statement On Remedies For Standard-Essential Patents Subject to Voluntary FRAND Commitments (2013), http://www.justice.gov/atr/public/guidelines/290994.pdf.

[17] Written Submission on the Public Interest of Federal Trade Commission Chairwoman Edith Ramirez, In the Matter of Certain 3G Mobile Handsets and Components Thereof, Inv. No. 337-TA-613 (ITC July 10, 2015).

The Agencies should act on AAI's Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations, adopting the principle that SSOs should be liable for the anticompetitive effects of holdup conduct enabled by inadequate SSO patent policies.

In May 2013, AAI petitioned the FTC and DOJ to develop and promulgate "Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations," including safe harbors for SSOs that adopt and enforce seven specified kinds of policies.[18] The list of those policies drew support from and was consistent with suggestions in a speech seven months earlier by DOJ Deputy Assistant Attorney General Renata Hesse.[19] The premise of AAI's proposal was and is that an SSO that fails to adopt and enforce patent policies that prevent or at least minimize holdup conduct could be held liable for ensuing anticompetitive effects. The legal basis for it is the Supreme Court's decision in *American Society of Mechanical Engineers, Inc. v. Hydrolevel Corp.*[20] There, the Court established an SSO's antitrust liability in circumstances where anticompetitive harm occurred as a result of the SSO's failure to implement procedures aimed at preventing abuse of its processes. As the Court observed: "a standard setting organization like ASME can be rife with opportunities for anticompetitive activity," and "a rule that imposes liability on the standard setting organization – which is best situated to prevent antitrust violations through abuse of its reputation – is most faithful to the congressional intent that the private right of action deter antitrust violations."[21]

The Court reaffirmed SSOs' obligations to avoid abuses of their processes in *Allied Tube & Conduit Corp. v. Indian Head, Inc.*[22] As the Court there observed: standards have "a serious potential for anticompetitive harm" (and, for that reason, "private standard-setting associations have traditionally been objects of antitrust scrutiny"); antitrust legality of standard setting "depends upon the existence of safeguards sufficient to prevent the standard-setting process from being biased by members with

[18] Am. Antitrust Inst., Petition, Request for Joint Enforcement Guidelines on the Patent Policies of Standard Setting Organizations (May 23, 2013), http://www.antitrustinstitute.org/content/aai-calls-doj-and-ftc-create-joint-enforcement-guidelines-patent-policies-standard-setting-o [hereinafter "AAI SSO Guidelines Petition"](recommending (1) mandatory disclosure supported by good faith reasonable inquiry; (2) royalty-free licensing upon violation of disclosure obligations; (3) commitment to license SEPs on RAND terms; (4) prohibition on SEP owners seeking injunctions and exclusion orders against willing licensees; (5) stipulation that licensing commitments run with SEPs; (6) cash-only license options for individual SEPs; and (7) efficient, cost-effective processes to resolve RAND disputes).

[19] Renata Hesse, Deputy Assistant Attorney Gen., U.S. Dep't of Justice, Antitrust Div., Six 'Small' Proposals for SSOs Before Lunch, Remarks as Prepared for the ITU-T Patent Roundtable, Geneva, Switzerland (Oct 10, 2012), http://www.justice.gov/atr/public/speeches/287855.pdf.

[20] 456 U.S. 556 (1982).

[21] *Id.* at 571, 572-73.

[22] 486 U.S. 492 (1988).

economic interests in restraining competition"; and an "association cannot validate the anticompetitive activities of its members simply by adopting rules that fail to provide such safeguards."[23]

Neither DOJ nor FTC has responded to the above-described AAI petition. AAI urges the new administration to take a fresh look at it and seriously consider development of enforcement guidelines for effective SSO patent policies of the sort AAI has proposed. Indeed, a DOJ 2015 Business Review Letter that approved a proposed update to the IEEE Patent Policy provides useful examples of policies that all SSOs could be encouraged to consider and that could offer examples of policies required for safe harbor status in the manner discussed in AAI's proposal.[24]

More specifically, the IEEE update approved in that DOJ letter includes (a) clarification that a RAND commitment precludes seeking injunctive relief or an exclusion order unless the implementer fails to participate in or comply with the outcome of an adjudication of reasonable terms and conditions; (b) definition of a RAND commitment's "Reasonable Rate" as, inter alia, the ex ante value of the patented technology excluding ex post holdup value from inclusion in the standard and also the value of the "smallest saleable Compliant Implementation"; (c) reasonable terms requiring license availability at any and all levels of production; (d) grantback requirements limited to patents essential to the same standard, and no coercive tying together of a patentee's essential and nonessential patents; and (e) strengthened language on the binding nature of a RAND commitment on assignees.

III. Patent Assertion Entities

The Agencies should aggressively challenge abusive patent enforcement strategies by PAEs.

The Agencies, courts, and major segments of the business community are increasingly challenged by the growth of patent assertion entities and their predatory patent enforcement strategies. In the past year, the FTC has been conducting a major study of PAEs and their practices.[25] AAI believes that the overall phenomenon seriously threatens competition and consumers in a wide array of industries and that there is a need for more aggressive antitrust and related responses to it.

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[23] *Id.* at 500, 509. In an October 2012 decision, a district court in Pennsylvania affirmed the vitality of the *Hydrolevel* doctrine and denied an SSO's motion to dismiss allegations that SSO participants had abused their leadership positions to engage in exclusionary conduct. TruePosition, Inc. v. LM Ericsson Tel. Co., 899 F. Supp. 2d 356 (E.D. Pa. 2012).

[24] *See* Letter from Renata B. Hesse, Acting Assistant Attorney Gen., U.S. Dept. of Justice, Antitrust Div., to Michael A. Lindsay, Esq., Dorsey & Whitney LLP (Feb. 2, 2015), http://www.justice.gov/file/338591/download.

[25] *See* Prepared Statement of the Fed. Trade Comm'n Before the Subcomm. on Commerce, Manufacturing, and Trade of the Comm. on Energy and Commerce, U.S. House of Representatives (May 22, 2014), https://www.ftc.gov/-system/files/documents/public_statements/310821/140522patentdemandltrs.pdf.

One dimension of this situation appears in PAEs' indiscriminate targeting of large numbers of downstream customers of manufacturers alleged to be infringing multiple but unspecified patents within the PAEs' massive patent portfolios. Among the notorious practitioners of this strategy is MPHJ Technology Investments, LLC ("MPHJ"). As described in a 2014 FTC complaint, MPHJ acquired patents relating to network computer scanning technology and then sent letters to more than 9,000 small businesses, each one threatening an infringement suit unless the recipient purchased a license. According to the FTC's charges, the letters falsely claimed that many other parties had already agreed to pay thousands of dollars for such licenses and also included other deceptive statements. The FTC settled its complaint with a consent order prohibiting false or deceptive statements of those kinds.[26]

Several months earlier, the New York Attorney General announced a far broader challenge and remedy against that same PAE entity. The New York AG's remedy, for example, flatly prohibits assertion of any patent against a New York resident unless there is a "good faith basis" for the assertion after "reasonable efforts" to evaluate the scope of the patent in question as applied to a "specific accused product" that the New York resident makes, uses, or sells.[27] AAI urges the FTC to adopt the New York AG's broader approach to this problem in its pursuit of similar PAE practices, invoking the "unfair acts" prong of its authority under Section 5 of the FTC Act.

The Agencies should challenge PAEs' patent portfolio aggregations and disaggregations that create and enable the exercise of market power under Section 7 of the Clayton Act and Sections 1 and 2 of the Sherman Act.

Another dimension to the PAE phenomenon is the availability of PAEs to partner or collaborate with operating companies in what are sometimes called "privateering" arrangements. One example that has been in the news is the alliance between Nokia and Mosaid, a Canadian PAE, by which Nokia transferred to Mosaid 2,000 patents on wireless technology and Mosaid agreed to share with Nokia proceeds from Mosaid's aggressive enforcement program aimed at Nokia's downstream product competitors.[28] The obvious benefit of this arrangement to the parties is that Mosaid can aggressively pursue infringement claims against those competitors without inhibitions that would apply to Nokia because Mosaid has no product-related counterclaim or reputational exposure. Mosaid thus would have a different ability and incentive to use the patents. The motive for arrange-

[26] MPHJ Technology Investments, LLC, FTC File No. 142-3003, https://www.ftc.gov/enforcement/cases-proceedings/142-3003/mphj-technology-investments-llc-matter.

[27] Office of the Attorney General of the State of New York, *In Re* MPHJ Technology Investments, LLC, Assurance of Discontinuance (Jan. 13, 2014), http://www.ag.ny.gov/pdfs/FINALAODMPHJ.pdf.

[28] For a discussion of this arrangement, see Michael A. Carrier, *Patent Assertion Entities: Six Actions the Antitrust Agencies Can Take*, CPI ANTITRUST CHRONICLE, Jan. 2013, at 8.

ments of this sort could well be to raise rivals' costs and thereby suppress competition generally. In situations of this kind, AAI would encourage a target and/or an enforcement agency to challenge the arrangement under Section 1 of the Sherman Act.

One PAE that has received significant attention is Intellectual Ventures ("IV"). Among its many recent exploits is its acquisition of 3,500 patents covering financial services technology and its assertion of the overall portfolio against banks for which the covered technology is crucial to their online banking operations. In one such pending infringement suit, defendant Capital One Financial Corporation has asserted counterclaims against IV under both Section 2 of the Sherman Act and Section 7 of the Clayton Act. The Section 2 counts allege monopolization and attempted monopolization of a relevant market defined as financial services technology. The Section 7 count challenges IV's massive aggregation of all of the patents within the relevant technology market as a series of unlawful asset acquisitions. In March 2015, the Maryland district court denied IV's motion to dismiss these counterclaims, potentially an important development in the overall effort to fashion effective antitrust responses to these anticompetitive PAE practices.[29]

The Agencies should support legislation that requires more transparency by PAEs regarding patent ownership and assignments, grounds for assertions of patent infringement, and related matters.

One concern with respect to PAE activity generally is lack of transparency. Some PAEs hide patent ownership and assignment information and much else about their plans and activities beneath large numbers of shell companies. They make license demands and infringement allegations without identification of the patents at issue or of the target's allegedly infringing products. They file bare-bones complaints without having made reasonable inquiry into facts essential to them and without facts essential to fashioning defenses to them. Bills have been introduced in both Houses of Congress to address these issues through such means as ownership and assignment disclosure requirements, demand letter requirements, pleading standards, and a loser-pays rule for litigation expenses.[30] AAI supports legislative solutions along these lines.[31]

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[29] Intellectual Ventures I LLC v. Capital One Fin. Corp., 2014 U.S. Dist. LEXIS 31715 (D. Md. Mar. 12, 2014) (No. PWG-14-111).

[30] *See* Innovation Act, H.R. 9, 114th Cong. (2015); STRONG Patents Act of 2015, S. 632, 114th Cong. (2015); PATENT Act of 2015, S. 1137, 114th Cong. (2015).

[31] *See, e.g.,* Letter from the American Antitrust Institute to Senators Amy Klobuchar and Mike Lee Regarding Senate Bill 1720, The Patent Transparency and Improvements Act (Feb 6, 2014), http://antitrustinstitute.org/sites/default/files/AAI%20-%20S.%201720%2C%20Patent%20Transparency%20and%20Improvements%20Act.pdf (supporting disclosure, demand letter, and pleading standard reforms but questioning fee-shifting provisions).

A final concern is that transfers to PAEs can avoid RAND obligations made by the original party. For example, the Rockstar consortium's acquisition of the Nortel patent portfolio was approved based on promises made by members (Apple and Microsoft) to agree to RAND licensing, but was followed by the Rockstar CEO's statement that the consortium "isn't bound by the promises that its member companies made" since "[w]e are separate" and the commitments "do[] not apply to us."[32] Similarly, transfers to PAEs could circumvent promises related to maximum royalties as the original party and PAE (along with any successor) *each* charges a maximum royalty.[33]

IV. First Amendment Issues

The Agencies should look for opportunities to clarify and develop the law to restrict the application of *Noerr-Pennington* immunity when SEP owners and PAEs engage in abusive patent enforcement conduct.

In *Google/Motorola* and *Robert Bosch*, the FTC took the position that *Noerr-Pennington* did not apply to a SEP owner seeking (or threatening to seek) an injunction where the SEP holder had essentially waived its right to seek injunctive relief by virtue of its RAND commitment.[34] In *Microsoft Corp. v. Motorola, Inc.*, the Ninth Circuit endorsed this approach, holding that *Noerr-Pennington* did not bar Microsoft's claim for damages from Motorola's breach of its RAND commitment by seeking injunctive relief because "[t]he doctrine does not . . . immunize a party from actions that amount to a breach of contract."[35] The court noted, "Enforcing a contractual commitment to refrain from litigation does not violate the First Amendment. If it did, every settlement of a lawsuit would be unenforceable as a *Noerr-Pennington* violation."[36]

However, some courts have been receptive to *Noerr-Pennington* arguments. For example, in one case, three manufacturers of equipment providing WiFi technology filed a suit against Innovatio IP Ventures, LLP ("Innovatio"), challenging its attack on 8,000 downstream users of the manufacturers'

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32 Robert McMillan, *How Apple and Microsoft Armed 4,000 Warheads*, WIRED.COM (May 21, 2012), http://www.wired.com/2012/05/rockstar/; *see* Carrier, *supra* note 25.

33 *See* Lemley & Shapiro, *supra* note 9, at 993 (explaining royalty stacking); Scott Morton & Shapiro, *supra* note 2, at 477, 489-91 (discussing royalty stacking and "Hybrid PAE" arrangements with downstream firms).

34 Statement of the Fed. Trade Comm'n, *In re* Google, Inc., File No. 121-0120 (Jan. 3, 2013), https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolastmtofcomm.pdf; *In re* Robert Bosch GmbH, File No. 21-0081 (Nov. 26, 2012), https://www.ftc.gov/sites/default/files/documents/cases/2012/11/121126boschcommissionstatement.pdf. Commissioner Ohlhausen disagreed and would have held in both cases that respondents' conduct seeking an injunction is protected by *Noerr-Pennington*. *See* Dissenting Statement of Commissioner Maureen K. Ohlhausen, *In re* Google, Inc., FTC File No. 121-0120 (Jan. 3, 2013), https://www.ftc.gov/sites/default/files/documents/cases/2013/01/130103googlemotorolaohlhausenstmt.pdf (discussing both cases).

35 795 F.3d 1024, 1047 (9th Cir. 2015).

36 *Id.* at 1048.

equipment as unfair competition under state law, among other things. The patents Innovatio sought to enforce were subject to RAND commitments, and although the court permitted the manufacturers' breach of contract claims to proceed, it dismissed the remainder of the manufacturers' claims on the ground that the PAE's actions were protected by the *Noerr-Pennington* doctrine and were not a sham.[37] Motorola convinced another district court to dismiss on the same First-Amendment grounds an Apple counterclaim challenging under Section 2 of the Sherman Act Motorola's actions in seeking injunctive relief to enforce SEPs subject to RAND commitments.[38]

Given the uncertainty in the law, and the efforts of SEP owners and PAEs to develop a body of First Amendment law that would effectively immunize their abusive litigation and pre-litigation conduct from antitrust challenge under expansive applications of the *Noerr-Pennington* doctrine, the Agencies should invest in an effective counter-strategy of moving the law away from *Noerr-Pennington* immunity for abusive patent enforcement activity under the sham exception.

In *Professional Real Estate Investors, Inc. v. Columbia Pictures Industries, Inc.*, the Supreme Court established a two-part test that a plaintiff must satisfy to show that an adversary's litigation falls within the sham exception.[39] First, the lawsuit must be "objectively baseless" in the sense that no reasonable litigant could realistically expect success on the merits. Second, the suit must reflect a subjective intent to use the litigation process – as opposed to the outcome of that process – as an anticompetitive weapon.[40] The "objectively baseless" element is often difficult to establish, and the subjective intent element ordinarily requires extensive and expensive discovery processes to uncover admissible evidence for it.[41]

AAI believes the new administration should actively seek to broaden the sham exception and thereby narrow *Noerr-Pennington* immunity for both SEP owners' and PAEs' abusive litigation and pre-litigation practices. More specifically, the administration should resurrect and pursue recommenda-

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37 *In re* Innovatio IP Ventures, LLC Patent Litig., 921 F. Supp. 2d 903 (N.D. Ill. 2013).

38 Apple, Inc. v. Motorola Mobility, Inc., No. 11-CV-178, 2012 U.S. Dist. LEXIS 157525 (W.D. Wis. 2012).

39 508 U.S. 49 (1993).

40 *Id.* at 60-61.

41 On the other hand, we believe that establishing both elements – objective baselessness and subjective intent – should not be too difficult in situations where the owner of a SEP subject to a RAND commitment seeks either injunctive relief from a district court or an exclusion order from the ITC against a willing licensee in the wake of (a) the Federal Circuit's decision in *Apple Inc. v. Motorola, Inc.*, 757 F.3d 1286, 1331-32 (Fed. Cir. 2014), and (b) the U.S. Trade Representative's rejection of an ITC exclusion order against Apple in 2013 on public interest/competition policy grounds. Letter from Michael E.G. Froman, Ambassador, U.S. Trade Rep., to Irving A. Williamson, Chairman, Int'l Trade Comm'n (Aug. 3, 2013), http://www.ustr.gov/sites/default/files/08032013%20Letter_1.PDF.

tions in the FTC's 2006 report on "Enforcement Perspectives on the *Noerr-Pennington* Doctrine."[42] Two of the recommendations in that report are of particular relevance and promise in this regard: "Clarify that conduct protected by *Noerr* does not extend to misrepresentations, outside of the political arena, that meet the standards set forth in the Commission's *Unocal* decision";[43] and "[c]larify that conduct protected by *Noerr* does not extend to patterns of repetitive petitioning, outside of the political arena, filed without regard to merit that employ government processes, rather than the outcome of those processes, to harm competitors in an attempt to suppress competition."[44]

Deliberate and material misrepresentation may be found when the owner of a SEP subject to a RAND commitment seeks to enforce the patent without disclosing the RAND obligation. Deliberate and material misrepresentation may also be found when a PAE sends demand letters to thousands of small businesses threatening to sue unless payments are made. The misrepresentation consists of implying that the PAE has a good faith and reasonable basis to believe each such recipient is infringing the PAE's patents and will be sued if the recipient refuses to pay. PAEs may also be engaging in "patterns of repetitive petitioning . . . without regard to merit" with their mass mailings threatening litigation as well as mass filings of infringement suits without individualized due diligence into the merits of infringement charges with regard to each target.

A thoughtful commentator on this subject has suggested that "pre-suit threats of injunctive relief that are part of a pattern of anticompetitive activity associated with the standard-setting process should, generally, entail less First Amendment protection."[45] As this commentator noted, there is a "threshold question of whether the pre-suit demands by the patent owner directed to implementers of [RAND-encumbered SEPs] even fall into the category of First Amendment petitioning."[46] As he further noted, pre-suit threats that are "part of a larger anticompetitive scheme by the patent owner

[42] FED. TRADE COMM'N, ENFORCEMENT PERSPECTIVES ON THE *NOERR-PENNINGTON* DOCTRINE, AN FTC STAFF REPORT (2006), https://www.ftc.gov/sites/default/files/documents/advocacy_documents/ftc-staff-report-concerning-enforcement-perspectives-noerr-pennington-doctrine/p013518enfperspectnoerr-penningtondoctrine.pdf.

[43] *Id.* at 22-28, 37.

[44] *Id.* at 28-36, 38.

[45] Paul H. Saint-Antoine, *IP, Antitrust, and the Limits of First Amendment Immunity: Shouting 'Injunction' in a Crowded Courthouse*, ANTITRUST, Summer 2013, at 46.

[46] *Id.*

to abuse the standard-setting process . . . are more likely to be viewed by the courts as incidental to proper enforcement of the antitrust laws."[47]

V. Conclusion

Competition policy is relevant to patent law in two respects. There is a longstanding competition policy embedded in U.S. patent law, which "seeks to avoid the dangers of overprotection just as surely as it seeks to avoid the diminished incentive to invent that underprotection can threaten."[48] Instead, "patent law seeks to sail between these opposing and risky shoals,"[49] mindful that there is a "baseline of free competition upon which the patent system's incentive to creative effort depends."[50] And patent enforcement is constrained by the antitrust laws. That is why the Supreme Court recently reminded enforcers and courts confronted with strategic behavior by patent owners to "answer the antitrust question."[51]

AAI strongly supports the Agencies' policy development and advocacy in the patent realm. We also applaud the efforts of the FTC, the Antitrust Division, Congress, the courts, and others to reign in abuses by SEP owners and PAEs. We have recommended additional steps to prevent and punish holdup and other opportunistic conduct in an effort to better align patent and competition law and policy to more effectively promote innovation. This important goal deserves the utmost attention from the next administration.

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[47] *Id.* There is conflicting case law on whether pre-litigation threats or demands are protected petitioning under the *Noerr-Pennington* doctrine. *Compare* Va. Panel Corp. v. MAC Panel Co., 133 F.3d 860, 869 (Fed. Cir. 1997) *with* Cardtoons, L.C. v. Major League Baseball Players Ass'n, 208 F.3d 885, 893 (10th Cir. 2000).

[48] Lab. Corp. of Am. Holdings v. Metabolite Labs., Inc., 548 U.S. 124, 127 (2006) (Breyer, J., dissenting).

[49] *Id.*

[50] Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141, 156 (1989).

[51] Fed. Trade Comm'n v. Actavis, Inc., 133 S. Ct. 2223, 2231 (2013).