



University of California  
Hastings College of the Law  
200 McAllister Street  
San Francisco, CA 94102

415.565.4661 (phone)  
415.565.4865 (fax)  
feldmanr@uchastings.edu

**Robin Feldman**  
Professor of Law  
*Director, Law & Bioscience Project*

January 24, 2012

David J. Kappos,  
Under Secretary of Commerce for Intellectual Property and  
Director of the United States Patent and Trademark Office

Dear Director Kappos;

I write in support of the Patent and Trademark Office's proposed rules on disclosure of real-party-in-interest information.

In an efficiently functioning patent market, producers could quickly and inexpensively do the following: 1) identify which rights might be relevant to the product they wish to produce; 2) find the parties who control the interests in those rights; 3) determine the value of those rights in relation to the value of the product to be produced; and 3) secure a license with competitive terms. We are worlds away from such a system, but the Patent and Trademark Office's proposed rules on disclosure of real-party-in-interest information would take an important step towards that vision, particularly the "broad definition" proposal. As always, promotion of an effective and efficient marketplace for innovation should be of paramount importance to regulatory agencies.

In the last five years, the patent market has undergone a change of seismic proportions. Patent rights are now regularly stripped from any underlying product and traded much like commodities in a largely unregulated market—the market for patent monetization. Prior to this time, the patent system

had long operated with the comfort of knowing that more than 90% of patents would never bring any form of direct monetary return. I would refer to these as shadow rights, given that they have hovered on the periphery of the patent system, never fully actualized or fleshed out. We are now shifting to a system in which the opposite will be true—a drastic shift that is likely to have an extensive impact on innovation and the national economy. In our brave new world, large numbers of patents, that would not have garnered any direct return in the past, are being traded and monetized. Their presence in the market, particularly in the form of commoditized, tradable rights, enhances the uncertainty and game playing that may allow patent holders to obtain returns above the value of patent itself. See Robin Feldman, *Intellectual Property Wrongs* (describing amplification and shadow rights)(forthcoming) available at [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2127558](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2127558).

Regardless of what one thinks about the causes and implications of patent monetization, it is clear that this behavior is expanding at an explosive rate. In late 2012, co-authors Sara Jeruss, Joshua Walker and I released a study identifying a sharp rise in patent monetization activity over the last five years. See, Sara Jeruss, Robin Feldman & Joshua Walker, *The America Invents Act 500: Effects of Patent Monetization Entities on US Litigation*, 11 DUKE L. & TECH REV. 357 (2012) available at <http://dltr.law.duke.edu/2012/11/30/the-america-invents-act-500-effects-of-patent-monetization-entities-on-us-litigation/>. The work flowed from a request for data from the US Government Accountability Office (GAO), to be used in conjunction with an investigation that was Congressionally mandated by the America Invents Act. Our study concluded that the amount of patent litigation filed by patent monetization entities has increased from 22% five years ago to almost 40% in 2011. This represents a remarkable increase over a very short period of time. Although the data sample requested by the GAO was small, the indications even in that sample were striking. Whatever one thinks about this behavior there is a lot of it, and it appears to be expanding rapidly.

In this rapidly shifting landscape, it will be critical for companies to be able to keep track, not only of simple ownership of patents, but also of actual control. Information that, in theory, should be recorded is not always recorded in a timely fashion. *See* Tom Ewing & Robin Feldman, *The Giants Among Us*, 2011 STAN. TECH. L. REV. 1, at pages 4, 58 (describing evidence of parties releasing information about patents transferred to a mass aggregator with no corresponding assignment recorded in the PTO database), *available at* <http://stlr.stanford.edu/2012/01/the-giants-among-us/>. Moreover, the information that must be recorded in relation to a patent is highly incomplete. For example, an exclusive license may have an effect in the marketplace that is similar to a transfer of ownership, yet it might not be recorded at the PTO, and perhaps not knowable in any format. These exclusive licenses already include agencies of the US federal government, some of whom are eager participants in this brave new world of patent monetization. If nothing else, one might imagine that at least the government should be compelled to disclose the parties with whom it has bestowed exclusive rights. Other ownership and control relationships, such as a right to a return on licensing or litigation, are also difficult to determine. This information can be important in bringing to light conflicts of interest for judges and examiners. It can also be important for ensuring that companies can adequately file patentability challenges, either through declaratory judgment actions in court or through third party proceedings at the PTO.

The Xilinx case is a perfect example. Co-author Tom Ewing and I described the saga of the case in the following manner:

In the California lawsuit, Intellectual Ventures and Xilinx engaged in a battle of motions concerning whether the disclosure could be filed under seal or for attorneys' eyes only, rather than publicly. As the parties' motions began flying across the judge's bench, the judge recused herself, presumably because she became aware of the identities of the interested parties, and a new judge was appointed. The new judge accepted Xilinx' arguments and the Intellectual Ventures parties disclosed

publicly a list of investors including more than 50 entities, such as the World Bank, the Mayo Clinic, the William and Flora Hewlett Foundation, and several universities.

In *Xilinx*, the court has now dismissed several of the Intellectual Ventures parties on the grounds that they were not the legal owners for some of the patents specifically mentioned in Xilinx's declaratory judgment action. The legal owners for these patents include some seven other Intellectual Ventures shell companies, and the California judge has transferred this portion of the lawsuit to Delaware. So, the network of affiliated shell companies seems to have served Intellectual Ventures well in this case because its network was so vast that Xilinx did not identify the formal owner among a group of extremely related parties, allowing transfer of portions of the case to Delaware. The case is a cautionary tale for any company targeted by a mass aggregator that one should pay careful attention to who actually owns the patents being pushed in a licensing campaign, as opposed to who is doing the licensing negotiation or who may ultimately receive the funds from the licensing or litigation. *See* Tom Ewing & Robin Feldman, *The Giants Among Us*, 2011 STAN. TECH. L. REV. 1, 42-43 (citations omitted), *available at* <http://stlr.stanford.edu/2012/01/the-giants-among-us/>.

Finally, increased information for companies in the marketplace can reduce transaction costs for those who would like to license and increase the possibility of licensing on reasonable and competitive terms. In general, markets function more efficiently when information flows freely. We have a long way to go in the patent system, but sunshine rules, like the ones proposed for disclosure of real-party-in-interest, will be important for increasing both information and informed, competitive decision-making.

In addition to the importance for companies in the marketplace, increased information is essential for regulators and legislators. As the vast and rapidly expanding market for monetization emerges, it will be critical for government actors to understand and evaluate when the market is operating competitively and when it is not. Much of the information about this market is shrouded in

secrecy, either through non-disclosure agreements or by the sealing of court documents. *See Giants Among Us, supra* (using public documents to locate 1,300 subsidiaries of the largest patent aggregator, a painstaking process that took years to accomplish). Nevertheless, the information that has emerged suggests that there is much troubling behavior in the marketplace, as well as great potential for anticompetitive activity. *See id.; see also Intellectual Property Wrongs, supra*. It will be impossible for regulators to know where the problems exist or how to address them without the passage of these and other sunshine rules.

For example, as I noted in comments at the FTC/DOJ Workshop on Patent Assertion in December of 2012, as with any market, the market for patent monetization is subject to manipulation if it is unregulated. At the moment, there are virtually no constraints if parties want to collude, divide up or otherwise manipulate that market. In fact, the market for patent monetization has arisen so rapidly, we are not yet even characterizing it as a market. Which means it looks a lot like the Wild, Wild West out there.

We have to worry about manipulations that could have anticompetitive effects in the market for patent monetization itself. We also have to worry about behavior in the market for patent monetization that could affect the underlying individual Intellectual Property markets, even in the absence of actual power in any of those individual markets. In other words, I may not need to have power in a particular IP market to affect prices in that market. It is an odd circumstance, but entirely possible in this new market.

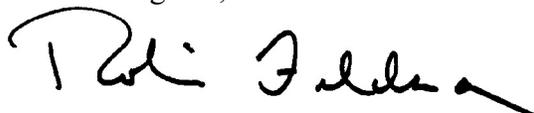
Consider the following: I no longer need to have a basket of automobile patents big enough to constitute market power in the auto market to affect the auto market. Perhaps all I would need is a small number of patents in that market and a reputation for tough tactics. If I happen to have a large grab bag of assorted patents, so much the better. (After 50 patents, most licensing targets will cease to examine the patents on their individual merits.)

For example, suppose I have a patent related to the banking industry. My claim that this banking patent actually applies to your automobile production may be pretty farfetched. If I have enough farfetched claims to cause trouble for you, however, and I am threatening to throw them at you one after another, and I have a reputation for playing hardball, that may be enough for you to pay what I ask. It may also be enough for every other automobile manufacturer to pay what I ask, as well. Under those circumstances, it is possible that I could affect the market for automobiles without having much to speak of in the way of automobile patents.

In antitrust, big is not bad. It is what you do with your girth that matter. With this new market for patent monetization, we currently have no way to accurately measure girth and no way to know what people are doing with the girth they have. This is why sunshine rules are so critical for grappling with the market and designing the rules that will ensure a competitive marketplace.

I applaud the Patent and Trademark Office for contemplating these regulations. There is much work to be done to ensure an efficiently operating patent market in modern circumstances, but the broad definition real-party-in-interest rules would be an important step along this path.

Warmest regards,

A handwritten signature in black ink, appearing to read "Robin Feldman". The signature is written in a cursive, flowing style with a long horizontal stroke at the end.

Robin Feldman