INTELLECTUAL
VENTURES

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April 24, 2008

Mr. Donald Clark, Secretary
Office of the Secretary
Federal Trade Commission
Room 135-H (Annex D)
600 Pennsylvania Avenue, NW
Washington, D.C. 20580

Re: *Negotiated Data Solutions*, File No. 051 0094

Dear Secretary Clark:

Intellectual Ventures Management, LLC ("IV"), respectfully submits this public comment regarding the Federal Trade Commission's proposed consent order in *Negotiated Data Solutions*, File No. 051 0094.

I. About Intellectual Ventures

IV is a privately-held company based in Bellevue, Washington that invests in invention. IV has in the past offered comments on patent reform legislation and USPTO rules, and has submitted briefs *amicus curiae* in Supreme Court cases involving patent issues. Executives from IV have testified before Congress on patent reform legislation and participated in patent-related hearings before the Antitrust Modernization Commission and the US-China Security & Economic Review Commission. IV appreciates the opportunity to provide comments on the proposed consent order.

IV pays attention to patent policy issues because patents, patent applications and inventions are our core assets. We invent in our laboratory, we invest in inventors so that they may conduct research that produces new ideas, and we acquire rights in patents, patent applications, and inventions from a wide variety of sources. Our invention acquisition activities intersect with a key issue before the FTC in this proceeding — knowledge of the extent of prior licensing commitments made by previous owners of a patent asset.

IV scours the world for good inventions that we believe are protected with valid patent rights. We closely inspect the inventions and the rights that come with them (e.g., for prosecution history issues, outstanding licenses, valid title transfers, claims drafting concerns, etc). We negotiate with the seller/inventor and provide risk capital to inventors, universities, research labs and companies.

Like most market-driven businesses, IV desires certainty and consistency with regard to regulations and decisions by regulators that may affect the functioning of the marketplace for invention rights. IV submits public comments in this matter because the intersection of antitrust, patents, and standards impacts innovation and investment in innovation. This area is especially complex given its linkage with international enforcement and trade considerations. U.S regulators and policy makers should continue their leadership in this area, and we hope that our comments assist the FTC in providing clear guidance to the IP and standard setting communities.

II. Clarifications in the Consent Order Are Needed To Avoid Adverse State Law Implications

Clarification of the Commission's proposed consent order is important in part due to the implications on state-law private damages causes of action for conduct found by the Commission to be a violation of Section 5.[1] Although Section 4 of the Clayton Act does not create a private right of action to enforce Section 5, *see, e.g.*, *Morrison & Morrison v. Back Yard Burgers, Inc.*, 91 F.3d 1184, 1187 (8th Cir. 1996), many states have antitrust laws or unfair practices laws that both provide a private damages remedy and look to interpretations of Section 5 either as a matter of statutory command or judicial interpretation.[2]

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[1] We note that both the Statement of the Commission and then Commissioner Kovacic's dissent sought public comment on the risk of private damages suits for conduct found to violate Section 5. *See* Statement of the Commission at 1-2 n.5 ("We recognize Commissioner Kovacic's concern that FTC 'unfair methods' cases may support private actions based on state law, and join him in encouraging comment on that issue.").

[2] It has been suggested that because no private damage actions may brought under Section 5, no such action may lie under so-called "harmonizing" state laws. That simply is not the case because the "harmonizing" provisions apply to the interpretation of the substantive provisions of the statute, not the remedial provisions. The state statutes at issue provide for monetary relief (including damages, restitution, and/or disgorgement). *Cf. KC Leisure, Inc. v Haber*, 972 So.2d 1069, 1075-76 (Fla.App.2008) (cased under Florida's Deceptive and Unfair Trade Practices Act applying both Section 5's substantive provisions *and* the FTC's Act's standards for individual liability for corporate acts and concluding that "[t]here are ample allegations contained in count II of personal participation which, if true, would support a judgment for damages"); *Regency Nissan, Inc. v. Taylor*, 391 S.E.2d 467, 471 (Ga.App. 1990) (case looking to Section 5 standards and awarding actual damages though declining to award treble damages on the facts of the case); *Grove v. Huffman*, 634 N.E.2d 1184, 1188 (Ill. App. Dist.,1994) (affirming award of damages in case that looked to Section 5).

While we have not undertaken an exhaustive survey, it is clear that a number of the largest states would allow private plaintiffs to seek damages (including in some cases treble damages or disgorgement of profits) for conduct that the Commission finds to violate Section 5. To provide just a few prominent examples:

- California's Unfair Competition Law, Cal. Bus. & Prof. Code § 17200, prohibits "any practices forbidden by law, be it civil or criminal, federal, state, or municipal, statutory, regulatory or court-made." *Saunders v. Superior Ct.*, 27 Cal. App. 4th 832, 838-39 (1994). When interpreting California law, its supreme court has specifically held that California courts "may turn for guidance to the jurisprudence arising under the 'parallel' Section 5 of the Federal Trade Commission Act." *Cel-Tech Communications, Inc. v. Los Angeles Cellular Telephone Co.*, 83 Cal. Rptr. 2d 548, 564 (1999) (internal citation omitted).[3]

- Florida's Deceptive and Unfair Trade Practices Act, Fla. Stat. 501.201 *et seq.*, expressly provides that claims under the Act may be based upon standards of "unfairness and deception set forth and interpreted by the Federal Trade Commission or the federal courts." *Id.* § 501.203(3)

- Georgia's Fair Business Practices Act, Ga. Code Ann. §10-1-309 *et seq.*, provides that "[i]t is the intent of the General Assembly that this part be interpreted and construed consistently with interpretations given by the Federal Trade Commission in the federal courts pursuant to Section 5(a)(1) of the Federal Trade Commission Act (15 U.S.C. Section 45(a)(1)), as from time to time amended." *Id.* § 10-1-391(b).

- The Illinois Consumer Fraud and Deceptive Business Practices Act, 815 Ill. Comp. Stat. Ann. 505 *et seq.*, provides that "[i]n construing this section consideration shall be given to the interpretations of the Federal Trade Commission and the federal courts relating to Section 5(a) of the Federal Trade Commission Act." *Id.* § 505/2.

While not every state contains such provisions (for example, New York, Pennsylvania, and Texas are among the large states that do not), the laws of these states surely provide a sufficient basis for concern to intellectual property acquirers given the likely nationwide effects of patent licensing decisions. As such, the risk of private

[3] The court recognized that "[a]dmittedly, the two statutes are enforced in significantly different ways. California has no administrative agency equivalent to the Federal Trade Commission (FTC), and private citizens have no right to seek personal enforcement of section 5 in lieu of FTC action." *Cel-Tech*, 83 Cal.Rptr.2d at 56-65.

damage actions under state analogs of Section 5 resulting from a misapplication of *N-Data*, as discussed below, could be avoided if the Commission's decision is clarified.

III. Specific Clarifications Are Needed in the Consent Order Due to Possible Precedential Implications

IV urges that the following specific clarifications be made in the proposed consent order, with designations (A)-(C) below corresponding to the subsequent subsections. In particular, IV believes that the consent order should make it clear that:

(A) Negotiated Data Solutions' knowledge of the extent of prior licensing commitments made by N-Data's predecessors in interest played a critical role in the Commission's finding of a violation of Section 5;[4]

(B) the specific terms of the prior commitment were prerequisites to the formulation of the license reflected in the Consent Order; and

(C) the case did not involve a dispute over RAND terms and conditions; rather, the Commission's intervention was due to N-Data's persistent refusal to honor a specific commitment to license.

A. The Commission Should Clarify the Importance of N-Data's Knowledge of Prior Commitments With Respect to a Patent

In many cases a party may acquire an intellectual property right without knowing the extent to which the right may be subject to a licensing commitment made by a prior owner to an SSO. If the acquirer makes commercially reasonable due diligence efforts to discover any such prior commitment, there should be no basis for a claim that the party's subsequent enforcement of that right, or its attempts to license on terms inconsistent with the prior commitment, constitutes a violation of Section 5 (or of the Sherman Act).

While a standard-setting organization ("SSO") or its members may have a breach of contract claim or an estoppel defense in infringement litigation, interpreting Section 5 to apply where there was no knowledge of the extent of a prior commitment at the time a patent was acquired would foster inappropriate private treble damages actions under state antitrust and unfair competition laws that incorporate Section 5 standards. The risk of such a treble damages remedy in a state law private action could discourage patent acquisitions and licenses (or lower the prices paid for patent acquisitions and licenses) by

[4] This comment does not address the appropriateness of the Commission majority's decision to apply Section 5 of the Federal Trade Commission Act to conduct that did not violate the Sherman Act.

raising the potential cost of uncertainty. This would in turn devalue the return from investment in innovation and result in reduced innovation.

There would be no risk of confusion from the Commission's decision if National Semiconductor ("National"), which made a firm commitment to IEEE to license its NWay autonegotiation technology, had itself breached that commitment by refusing to grant licenses on the terms it had promised. We are concerned, however, that because the Commission's action was brought against National's successor in interest, the decision is subject to misinterpretation, either through inadvertence or intentionally by an infringer seeking to gain an advantage in licensing negotiations. The risk of misinterpretation stems from the fact that the Commission's decision to find a violation of Section 5 is not clearly linked (either in the Analysis to Aid Public Comment, the Decision and Order, or the Statement of the Commission) to N-Data's knowledge of the prior commitments with respect to the patents it acquired at the time of their acquisition.[5]

The Commission's Complaint clearly alleges that N-Data knew that some of the patents it had purchased from Vertical Networks ("Vertical") were subject to prior licensing commitments, and indeed that one of the principals of N-Data had been involved in the negotiations when the patent was transferred from National to Vertical. Specifically, the Complaint alleges:

> 24. Prior to the assignment of the Patents, National gave Vertical a copy of the June 7, 1994 letter. Vertical acknowledged at the time that it had been informed "that several of the patents may be 'encumbered' by whatever actions [National] may have taken in the past with respect to the IEEE standards." The final agreement between Vertical and National stated that the assignment is "subject to any existing licenses and other encumbrances that [National] may have granted." It further provided, "Existing licenses shall include. . . [p]atents that may be encumbered under standards such as an IEEE standard."
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> "34. Respondent possessed a copy of, and was familiar with the June 7, 1994 letter of assurance when it received assignment of the Patents from

[5] The Analysis to Aid Public Comment refers to "N-Data's reneging on its pricing commitments," and thus appears to conclude that N-Data was bound by National's commitments to the IEEE. Analysis to Aid Public Comments at 7. This comment does not address the appropriateness of that conclusion. Nor do we address the situation where an IP buyer has knowledge of a prior licensing commitment but neither the SSO's rules nor any contract makes that commitment binding upon subsequent owners of the IP.

> Vertical. A principal of Respondent had represented Vertical in the negotiations in 1998 that led to National's agreement assigning the Patents to Vertical."

We note, however, that the Analysis to Aid Public Comment, the Decision and Order, and the Statement of the Commission do not clearly rely on these important facts.[6]

For example, in its description of why N-Data's conduct was an unfair method of competition in violation of Section 5, the Analysis to Aid Public Comment does not mention N-Data's knowledge of the prior licensing commitments at the time it received assignment of the patents when explaining why N-Data's conduct satisfies the "coercion" requirement of *Official Airline Guides v. FTC*, 630 F.2d 920, 927 (2d Cir. 1980), and the "oppressiveness" requirement of *E.I. Du Pont v. de Nemours & Co. v. FTC*, 729 F.2d 128, 139-40 (2d Cir. 1984). Analysis to Aid Public Comment at 5. (This discussion is limited to N-Data's exploitation of "lock in" to a standard adopted by a SSO.) The Analysis to Aid Public Comment similarly does not discuss N-Data's knowledge when describing why "[a] mere departure from a previous licensing commitment is unlikely to constitute an unfair method of competition under Section 5." *Id.* at 6. The Statement of the Commission makes no specific reference to Vertical's and N-Data's knowledge.

The discussion in the Analysis to Aid Public Comment of why N-Data's conduct constitutes an unfair act or practice under Section 5 similarly contains no discussion of the importance of N-Data's knowledge at the time it acquired the patents in question. *Id.* at 6-9. When explaining why "merely breaching a prior commitment is not enough to constitute an unfair act or practice under Section 5," the Analysis to Aid Public Comment similarly focuses on the "lock in" issue, the materiality of the commitment to the SSO, and the ability of those practicing a standard to "exercise countermeasures to avoid injury from the breach." *Id.* at 9. Again, there is no discussion of the role of N-Data's knowledge, and the Commission clearly would have been faced with quite a different issue if N-Data and Vertical had acquired the patents without knowledge of prior licensing commitments. *See, e.g.*, Remarks of Melanie Sabo before the ABA Section of

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[6] The Analysis to Aid Public Comment does describe Vertical's knowledge of N-Data's licensing commitment and the fact that N-Data was owned by Vertical's outside patent counsel in its "Background" section. *See* Analysis to Aid Public Comment at 3, 4. The Proposed Complaint section of the Analysis to Aid Public Comment similarly describes Vertical and N-Data as "reneging on a known commitment made by their predecessor in interest." *Id.* at 4. And the description of the reasons why N-Data's "efforts to unilaterally change the terms of the licensing commitment also constitute unfair acts or practices under Section 5 of the FTC Act" notes that the "Section 5 claim against the efforts of Vertical and N-Data to unilaterally increase the price for the relevant technology by knowingly reneging on National's commitment meets these statutory criteria [in *Orkin Exterminating Co. v. FTC*]."

Antitrust, Federal Enforcement Committee Program "An Update on IP & the Agencies: N-Data and Rambus," *available at* http://www.abanet.org/antitrust/mo/premium-at/at-bb/08/AT80229.mp3 ("This was not a situation where Vertical didn't know or didn't understand what it was buying.").

The important role played by N-Data's knowledge should be clarified particularly in light of the difficulties that a patent acquirer may have in obtaining information regarding prior licensing commitments, even after reasonable due diligence efforts. There are facile and commercially practical ways to study state and national records to determine a patent's chain of title and security interests in the United States and in many countries, as well as the seller's corporate history and that of prior owners. One can easily determine whether a patent has lapsed and what fees need to be paid, and can review the file history.

But there is no obligation to record licenses or licensing commitments, and as a commercial matter few companies wish to record their license arrangements with other companies. There is no patent database for licenses given, covenants not to sue that have been extended, or licensing commitments to SSOs undertaken by prior owners. Sophisticated purchasers of inventions and patents seek to use representations and warranties by their sellers to disclose such agreements and commitments. Representations and warranties are taken seriously by some sellers, but others treat their representations and warranties with indifference (for example, where the seller is in financial distress such that the chance of its warranty being invoked is low). Thus, representations and warranties can help the purchaser to identify some, but not all, SSO commitments of prior owners.

Portfolios of patents, patent applications (both published and unpublished), and invention disclosures can involve a myriad of related and unrelated technology areas. There are hundreds of SSOs of varying resources and organizational complexity. Without complete input from the seller regarding prior licensing commitments to an SSO (which is often unavailable to the buyer), there is no practical way to fathom which patents might relate to which undertakings to an SSO.

If Section 5 were applied in situations where the purchaser of a patent had no knowledge that it was subject to licensing commitments made by a prior owner (and had made commercially reasonable efforts in due diligence to obtain such knowledge), a firm could be punished for trying in good faith to obtain, by means of a royalty bearing license, the value it thought it had acquired as part of its patent acquisition. This uncertainty and risk has a cost to patent acquirers, and would undoubtedly discourage patent acquisitions or lead to a reduction in the price paid for patent acquisitions to compensate for the increased risk. This reduction in compensation would in turn lead to reduced incentives for innovation.

B. The Commission Should Clarify That Its Remedy Is Based on the Terms of the Prior Commitment, Not a RAND Commitment

The Analysis to Aid Public Comment is clear on the point that the license terms in the Proposed Order "follow from those promised by National Semiconductor in its letter of June 7, 1994, to the IEEE." Nevertheless, Intellectual Ventures is concerned that the Commission's ruling might be misread to suggest that Section 5 would require license terms of the type contained in the Proposed Order if National had not made the specific licensing commitments of its letter to the IEEE. It would be useful for the Commission to clarify that the Proposed Order is not intended to set a benchmark for licensing terms that would satisfy the more typical SSO commitment to license on reasonable and nondiscriminatory license terms (*i.e.,* "RAND" terms).

C. The Commission Should Clarify That *N-Data* Did Not Involve a Good-Faith Dispute over RAND Terms and Conditions

While we believe that it should be clear from the context of the decision, it would nevertheless be helpful for the Commission to clarify that:

(1) *N-Data* did not involve a good-faith commercial dispute with prospective licensees over what constitutes RAND licensing terms and conditions;

(2) the *N-Data* action was prompted by N-Data's refusal to enter into the precise licenses that National had previously agreed to offer; and

(3) if N-Data had chosen at any time to honor its prior commitments on licensing terms, there would have been no Section 5 cause of action.

We are concerned that, unless clarified, the Commission's actions might be seen to invite parties involved in disputes over RAND terms to seek Commission intervention, or to tempt states or private plaintiffs to intervene in what would otherwise be good faith commercial disputes over licensing terms.

We believe it should be made clear that, if N-Data had simply chosen to honor the prior commitments that applied to it, there would be no Section 5 cause of action. That is, even if N-Data had earlier erred in offering terms not in accordance with those commitments, it could have "cured" this by honoring its commitments instead of steadfastly refusing to do so.

Accordingly, we believe that points (A), (B) and (C) above should be clarified in the consent order. We appreciate that the FTC has given the patent community an opportunity to comment on this decision.

Respectfully submitted,

Gregory P. Landis
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- and -

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