# COMMENTS TO THE FEDERAL TRADE COMMISSION

# PROPOSED INFORMATION AND DOCUMENT REQUESTS

# PATENT ASSERTION ENTITY (PAE) REPORT

**SUBMITTED BY**

**INTELLECTUAL VENTURES**

**DECEMBER 16, 2013**

**FTC PROJECT NO. P131203**

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## I. Introduction

Intellectual Ventures ("IV") hereby submits comments on the proposed information requests for the Federal Trade Commission ("FTC" or "the Commission") 6(b) study to provide a better understanding of the effects of patent assertion entity ("PAE") activity. IV supports the stated goals of the study and appreciates the opportunity to provide these comments.

IV was founded in 2000 and is a privately-held invention capital company. Our goal is to help establish and reinforce the value of ideas and invention by building a marketplace for invention. We have more than $6 billion in committed capital and more than 70,000 patent assets, and we engage with the market in several different ways. We invent and collaborate with world-renowned experts to design our own technology solutions to critical social and commercial problems; we partner with inventors to help them to develop and monetize their patents; we acquire patents from inventors, universities, governments, and companies around the world; and we work with companies to help them license the intellectual property rights they need for the present and the future.

IV agrees that a well-designed and executed 6(b) study would provide useful insights into the effect of PAE activity. That will require a strong empirical record that can be used to evaluate patent assertion activity by different PAEs with different business models, and assess how, if at all, patent assertion by PAEs differs from patent assertion by manufacturers and other patent holders.

We believe significant modifications are necessary in order for the study to accomplish the Commission's goals. Because the Commission will not look at all PAE activity and proposes to look at only a narrow slice of patent acquisition and enforcement activity by operating companies, the study as designed does not appear likely to yield meaningful results. We believe that any evaluation of the effects of PAE activity must be made in a broader context. What is the

impact of acquisitions and assertions by operating entities? Would that impact change in the absence of PAEs? Would we see more or less innovation?

Those are the core issues the study must answer, but we believe that as currently designed it will be unable to do so.

- In order to provide meaningful results, the study must be designed to generate statistically valid or generalizable conclusions about the effect of PAE activity as compared to enforcement and acquisition activity by non-PAEs. To do that, we believe the study must take into account that patent assertion relating to different technologies cannot be reliably compared given the different market dynamics and products involved, as well as the different patents. For every class of technology there are strong patents and weak patents, strong claims of infringement and weak claims of infringement, and cases in which infringement yields large damages and cases in which infringement would result in the award of modest damages.[1] It is uncertain what conclusions can be drawn by comparing the acquisition and enforcement of, for example, a strong patent on DRAM technology against a defendant with weak defenses to infringement and significant damages exposure, to the acquisition and enforcement of a weak patent covering software that could be easily designed around and that would yield modest damages. To produce meaningful results, the study must also allow for an "apples to apples" comparison of PAE and non-PAE activity. The Commission requires information about assertion activity regarding all PAE patents, but proposes to look at patent acquisition and enforcement by non-PAEs, including operating companies, only in the wireless communications industry. As noted above, a comparison between patent assertion activity in different market sectors is unlikely to yield meaningful insights. But to the extent that the Commission believes such comparisons may prove useful, it is essential to obtain the same information about patent assertion activity in the same markets from both PAEs and non-PAEs.

- There is an ongoing dispute in the literature regarding whether enforcement activity by PAEs is growing or not, and the proposed study might usefully address this issue.[2] There is, likewise, a question of whether PAEs are less successful than other plaintiffs when

[1] The study does not propose to evaluate patent quality (and we are aware of no way that it could do so without invading the attorney-client privilege). Because the study is likely to capture information regarding tens or hundreds of thousands of patents, only a small portion of which have ever been litigated to judgment, even an evaluation of litigation outcomes would not be meaningful.

[2] *See, e.g.*, Christopher Cotropia et al., *Patent Assertion Entities (PAEs) Under the Microscope: An Empirical Investigation of Patent Holders as Litigants*, Illinois Program in Law, Behavior and Social Science Paper No. LBSS14-20, Nov. 10, 2013 (noting controversy but finding no "explosion" in PAE litigation), *available at* http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2346381.

their claims are litigated to judgment.[3] In order to provide meaningful insights on these issues, the study must sample a significant portion of PAEs and operating entities.

- Academics have asked whether patent enforcement by PAEs is a "leaky bucket" because original patentees receive a relatively small share of the total costs allegedly imposed by PAEs.[4] But even if the study could provide statistically valid and otherwise meaningful information regarding the assertion of patents by PAEs (and for the reasons we describe above it is not clear that is the case), the study will clearly not provide meaningful information regarding the "leakiness" of the bucket when patents are enforced by firms other than PAEs. For example, if PAEs return 10% of the total costs of enforcement to inventors, should that be considered a "leaky bucket" or not? When attempting to answer that question, the FTC would need to consider whether universities, operating companies, and other patent holders return more or less than 10% to inventors. As currently contemplated, however, the study will provide no information in that regard (except to the limited extent that the Commission receives information from operating companies in the wireless communications industry).

- It is intuitive that limiting the ability of PAEs to acquire and assert patents would reduce the returns to inventors because there would be less competition among buyers for their patents. Some have suggested, however, that limiting PAE activity might not have a net negative impact on innovation because of offsetting benefits to operating companies that face lawsuits from PAEs.[5] The proposed study will not be able to address this question because it does not seek information from operating companies that have faced infringement demands from PAEs, and thus offers no way of evaluating the impact of patent assertion by PAEs on the innovation rate of these operating companies, nor does it seek comprehensive information regarding the cost of assertion by operating entities.

- Nor will the study evaluate the alternatives to assertion by PAEs. If inventors cannot sell their patents to PAEs, will they assert those patents on their own or will they sell their patents to operating companies instead? What are the competitive effects and innovation effects of those alternatives? Answering these questions would require the Commission to obtain information from targets of PAE demands, inventors, and operating companies, but the proposed 6(b) study will not seek the necessary information from any of these firms.

These issues should be addressed if the study is to produce meaningful results. Doing so will require that the Commission obtain data from many additional respondents.

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[3] *See, e.g.*, John R. Allison et al., *Patent Quality and Settlement Among Repeat Patent Litigants*, 99 Geo. L.J. 677, 693 (2011).

[4] *See* Fiona Scott Morton & Carl Shapiro, *Strategic Patent Acquisitions* (July 2, 2013), *available at* http://faculty.haas.berkeley.edu/shapiro/pae.pdf.

[5] *Id.*

The costs and burdens of the proposed information requests should be reevaluated in light of the additional information we believe is necessary to provide meaningful results. If, as IV has suggested, the Commission greatly enlarges the number of recipients of the study, the total burden will likewise increase, and that increased burden must be weighed against the concomitant greater benefits of a more comprehensive and more useful study.

The Commission proposes to collect (subject only to a date limitation) virtually every document in the files of PAEs -- every document relating to their acquisition, licensing, and enforcement of patents, every document related to their financial performance and investors, and every document relating to their business strategy. Although the Commission's Federal Register notice estimates that the burden of this production will be a maximum of 400 hours per PAE, that estimate is simply unrealistic and likely underestimates the cost and time to comply by at least a factor of 250.

The Commission's information and document requests, as proposed, are not well-tailored to achieve the objectives of the study and are inconsistent with the requirements of the Paperwork Reduction Act. The proposed information requests should be significantly revised to expand the universe of respondents and narrow the breadth of the specifications, both to limit the burden on respondents and to ensure that the Commission obtains information that is of practical utility and that is not unnecessarily duplicative of information otherwise available to the Commission. By doing so, the Commission will ensure that the study addresses key issues while collecting only information that the Commission can practically analyze, rather than tens of millions of pages of documents about tens or hundreds of thousands of patents, and that the costs of the study do not outweigh its benefits.

## II. Statutory Background: The Paperwork Reduction Act

The Paperwork Reduction Act ("PRA") and its implementing regulations were enacted to minimize the burdens and maximize the practical utility and public benefit of information collection by federal agencies.[6] To accomplish these goals, the PRA requires agencies to certify that a proposed information collection, among other things,

> (A) is necessary for the proper performance of the functions of the agency, including that the information has practical utility; (B) is not unnecessarily duplicative of information otherwise reasonably accessible to the agency; [and] (C) reduces to the extent practicable and appropriate the burden on persons who shall provide information to or for the agency.[7]

More specifically, under the PRA's implementing regulations, an agency must

> demonstrate that it has taken every reasonable step to ensure that the proposed collection of information: (i) [i]s the least burdensome necessary for the proper performance of the agency's functions to comply with legal requirements and achieve program objectives; (ii) [i]s not duplicative of information otherwise accessible to the agency; and (iii) [h]as practical utility.[8]

Practical utility refers to "the actual, not merely the theoretical or potential, usefulness of information to or for an agency, taking into account its accuracy, validity, adequacy, and reliability, and the agency's ability to process the information it collects."[9]

As drafted, the FTC's proposed request falls short of these requirements in several key respects. We request that the FTC adopt the modifications described in these comments, which

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[6] Paperwork Reduction Act, 44 U.S.C. § 3501 ("The purposes of this subchapter are to--(1) minimize the paperwork burden . . . resulting from the collection of information by or for the Federal Government; (2) ensure the greatest possible public benefit from and maximize the utility of information . . . collected . . . ."); 5 C.F.R. § 1320.1 ("The purpose of this Part is to implement the provisions of the Paperwork Reduction Act of 1995 . . . concerning collections of information. . . . It is designed to reduce, minimize and control burdens and maximize the practical utility and public benefit of the information created, collected, disclosed, maintained, used, shared and disseminated by or for the Federal government.").

[7] 44 U.S.C. § 3506(c)(3).

[8] 5 C.F.R. § 1320.5(d)(1).

[9] *Id.* § 1320.3(l).

will enhance the practical utility of the information collected while reducing significantly the burdens imposed on respondents.

## III. The Commission Should Gather Information More Broadly About Patent Assertion Activity So that It Can More Effectively Assess the Economic Impact of Patent Assertion Entities

The Commission's proposed information request targets "firms with a business model based primarily on purchasing patents and then attempting to generate revenue by asserting the intellectual property."[10] However, this narrow focus overlooks the fact that many non-PAEs, including major operating companies, engage in exactly the same behavior of acquiring patents for the sole or primary purpose of asserting them against persons who are already practicing the patented technologies. Hewlett Packard, for example, has extolled the value and profitability of acquiring and asserting patents as a standalone business.[11] Operating companies also sell patents to entities that assert them.

Other firms assert and license patents on their own inventions that they do not practice (or at least do not practice in competition with their infringement targets). IBM, Texas Instruments, universities, and research labs are prime examples of such firms, as is NTP, which was founded by one of the inventors of the patents it famously asserted against Research in Motion and others. As Carl Shapiro explained at the FTC and Department of Justice ("DOJ") Workshop on Patent Assertion Entity Activities, there is "no deep distinction between [a] failed

[10] FTC Notice, Request for Comments on Information Requests to Patent Assertion Entities, 78 Fed. Reg. 61352 (Oct. 3, 2013).

[11] *See* Joff Wild, *If You Monetise Your IP HP, Why Shouldn't Others Do The Same With Theirs?*, IAM Magazine Blog, Mar. 16, 2012, *available at* http://www.iam-magazine.com/blog/detail.aspx?g=38a3325b-cbd7-4b13-a482-e981e433a13c; Peter Detkin, *Rebuttal: A Tale Of Two HPs*, Law360, Mar. 15, 2012, *available at* http://www.intellectualventures.com/assets_docs/Rebuttal_A_Tale_Of_Two_HPs.pdf.

company, individual inventor, [or] university."[12] Thus, there is no reason for the Commission to limit its information requests and its study based on, to use Professor Shapiro's words, the "form of the assertion entity" or whether "the invention [and] patenting function is vertically integrated with the patent assertion function."[13] Instead, if it wishes to reach any conclusions regarding PAE activity, the Commission will need to study the broader, more fundamental question of the economic and policy implications of patent assertion activity across all business models and all sectors.[14]

In order to develop a more accurate and complete understanding of patent assertion activity, including the relative costs and benefits of assertion by PAEs, the Commission will need to understand the alternative to acquisition and assertion of patents by PAEs. The alternative to PAE activity is unlikely to be the non-assertion of patents (though the Commission should seek information on that question from patent sellers). Instead, if inventors and other sellers cannot sell to PAEs, they will seek other options. They may sell to operating companies, and those operating companies, free from competition with the PAEs, will likely pay less for those inventions than they otherwise would. Alternatively, patent owners could choose to enforce their patents themselves rather than sell them. For example, Kodak was actively enforcing its patents against a wide variety of defendants before it sold a portion of its patent portfolio to IV to

[12] Carl Shapiro, *Patent Assertion Entities: Effective Monetizers, Tax on Innovation, or Both?* 16 (Dec. 10, 2012), *available at* http://www.ftc.gov/opp/workshops/pae/docs/cshapiro.pdf#page=15.

[13] *Id.*

[14] No meaningful distinction can be drawn based on whether the entity's business is "primarily" patent assertion. A large operating company may well engage in a far greater amount of assertion activity than a small PAE, even if that activity constitutes only a small percentage of that operating company's business.

generate money for its bankruptcy estate. It presumably would have continued to do so had it not been able to sell the patents.

In order to understand the alternatives to patent assertion by PAEs, and the relative costs and benefits of PAE assertion, the Commission should issue its information request more broadly to patent sellers and non-PAE patent purchasers, as well as operating companies that engage in substantial assertion activity, especially those that assert patents that they do not practice.

Were it to do so, IV believes that the Commission would find that acquisition and assertion of patents by PAEs is superior to the alternatives. On the patent acquisition side, by helping to create a robust secondary market for patents, PAEs help inventors profit from inventions that they themselves cannot practice or monetize efficiently (or as efficiently as a PAE), thereby incentivizing innovation. And on the assertion side, PAEs profit only by licensing, unlike operating companies, which profit from excluding competitors via injunctions. Moreover, given the Supreme Court's decision in *eBay*, operating companies are more likely to be able to obtain an injunction, giving them a greater ability to "hold up" alleged infringers for royalty demands that exceed the value of the invention. In short, any consideration of the "costs" of PAE activity should also consider the benefits, as well as the costs and benefits of the alternatives, and such consideration requires information from all the players in the market.

In addition to expanding the scope of its inquiry to include different types of firms that sell and assert patents, the Commission should also expand its inquiry beyond operating companies in the wireless communications sector. Patent assertion by PAEs and non-PAEs occurs in a wide variety of sectors, and, as noted above, there is no reason to believe that the wireless sector is representative of the patents, market participants, or market dynamics of other

sectors, or that conclusions about other industries can be reliably extrapolated from what the FTC learns about patent acquisition and assertion in the wireless industry.

IV understands that issuing the information request, as drafted, to additional firms in additional markets would likely flood the Commission with more information than it could digest. (Indeed, as described below, the information request as drafted already would generate a massive production that well exceeds the agency's processing capabilities, even for the current list of recipients.) Instead, IV urges the Commission to narrow the scope of the request by collecting only highly probative information that can be processes and analyzed, but broaden its conception of patent assertion activity in order to draw meaningful comparisons and conclusions.

## IV. The FTC Should Narrow the Universe of Responsive Patents to Those Most Useful to its Study

The primary question posed by this study is whether patent assertion by a PAE is fundamentally different from and has different systemic consequences than patent assertion by a non-PAE. That question can only be answered if all of the relevant players are providing the same types of information, thus allowing an "apples to apples" comparison. However, the Commission is currently requesting information from non-PAE firms only in the wireless communications sector. Because it is not meaningful to compare patent acquisition and licensing in the wireless sector with patent acquisition and licensing in other industries, any requests to PAEs regarding their patents and their acquisition and assertion activities should similarly be limited to their holdings in the wireless communications sector (or, should the Commission broaden the recipients, to holdings in any other sector for which the Commission collects information from non-PAEs).

With comparable information from both PAEs and operating companies, one may be able to draw conclusions about how those different business models affect a particular market. But

gathering information from PAEs about patent acquisition, licensing, and assertion in the semiconductor, software, or other markets, while exempting operating companies from such a requirement, does not provide information useful for a comparison of PAE and non-PAE activity. Any such information would be of limited or no practical utility, and thus does not justify the very substantial burden the request would impose on PAE respondents. Similarly, since the FTC is not requiring operating companies to respond to Requests C and D, it should not issue those Requests to PAEs either. Collecting detailed patent and portfolio information from PAEs alone will create a substantial burden on PAEs while doing nothing to advance any comparative analysis.

We also believe that -- even within the universe of wireless patents (or patents in any other industry for which the Commission chooses to collect information from non-PAEs) -- the study should be limited to the relatively small subset of patents that have been litigated or specifically raised in a demand letter or in the course of licensing negotiations that have led to a settlement. (This would not include patents included as part of a portfolio license unless those patents were specifically asserted in litigation or raised in a demand or in licensing negotiations that led to settlement.)

This limitation is appropriate because the study is aimed at understanding the *effect* of patent assertion activity -- specifically, the settlements and litigation that result from patent assertion by PAEs and how those compare to licensing, patent sales, settlements and litigation that result from patent assertion by non-PAEs.[15] Where a patent has not been asserted in litigation, the Commission should limit its information requests to patents that have been

[15] *See* FTC Notice, Request for Comments on Information Requests to Patent Assertion Entities, 78 Fed. Reg. 61353 (Oct. 3, 2013) (explaining that the FTC seeks "[t]o understand how PAE behavior compares with patent assertion activity by other patent owners" in the wireless communication sector).

specifically identified as allegedly infringed and for which a license agreement has been reached. IV and other firms acquire many patents that are never asserted in any way (often because the firm from which IV acquired the patents prefers to sell an entire portfolio rather than specific patents). We do not believe that obtaining information about these patents will assist the Commission's inquiry, even if those patents have been included in a broader portfolio license, because the Commission's study is focused on the effects of patent assertion, not patent acquisition. At the same time, excluding these patents that have not been specifically asserted will substantially reduce the burden both on parties responding to the study and on the Commission staff evaluating the information produced. IV also believes that the Commission should not seek information regarding patents that were not asserted in litigation and for which no license agreement has been reached. Obtaining information about these patents, the assertion of which has not imposed any meaningful cost on the alleged infringer, would not provide useful information to the Commission. We do not believe that the Commission should invest resources on patents for which allegations of infringement have been essentially ignored.

IV therefore proposes that the Commission modify its definition of Assert as follows:

> "Assert," "Assertion," and "Asserted" mean: (i) any civil action filed by or on behalf of the Firm relating to a Patent; or (ii) a Demand alleging infringement of an identified Patent, if that Patent has been the subject of a civil action against any person as set forth in the prior clause, or if the Demand led to a license agreement with the alleged infringer.

If the Commission does not adopt this proposal, it should take other steps to limit the universe of patents about which it requests information in order to limit the burden on respondents and ensure that the Commission is able to process and analyze the information it receives. One practical way for the Commission to do so is to utilize a random sampling methodology, which would reduce the burden on respondents and the Commission without

compromising whatever utility a particular set of documents can offer.[16] As the Office of Information & Regulatory Affairs has noted, "[w]hen the benefits of collecting information from an entire population do not justify its costs, agencies should consider whether it is appropriate to use sampling for program evaluations and research studies."[17] The Commission could tailor its sampling request in several ways. One possibility is that the Commission could require a random sampling of all patents identified in a claim chart that was presented to potential licensees, whether or not such efforts led to a license or settlement. Alternatively, the Commission could review every patent identified in a claim chart that was presented to potential licensees, while using sampling to examine some other small subset of patents in the wireless sector (or other sector for which the Commission investigates both PAEs and non-PAEs).[18] Regardless of the specific method used, sampling would yield a useful set of documents while reducing the burden on respondents and the Commission.

[16] S. L. Lohr, *Sampling: Design & Analysis* (1999); W. G. Cochran, *Sampling Techniques* (3d ed. 1977); Hansen et al., *Sample Survey Methods & Theory* (1993).

[17] Memorandum from Cass Sunstein, Administrator of the Office of Info. & Regulatory Affairs on Reducing Reporting & Paperwork Burdens at 2 (June 22, 2012), *available at* http://www.dol.gov/regulations/20120622OIRAReducingReportingPaperworkBurdens.pdf. The memorandum notes that "[c]onsistent with the Paperwork Reduction Act and Executive Order 13579, independent agencies are requested, in connection with their own efforts to eliminate unjustified regulatory requirements, to give careful consideration to this memorandum and to take meaningful steps to reduce paperwork and reporting burdens on the American people." *Id* at 3.

[18] Sampling would primarily be useful for Requests C, D, (to the extent those Requests aren't eliminated as proposed above) and E, which request extensive information about patents, patent portfolios, and acquisitions, if these requests are retained. For Requests G and H, Intellectual Ventures could provide information that applies to all of its patents.

## V. Requests Should Be Limited to Generate Only Documents with Practical Utility

The proposed request seeks "all documents" in 14 specifications relating to broad aspects of the respondents' businesses, including the purchase, sale, licensing, and internal organization of patent holdings; costs and revenues from acquisitions and assertions; and revenue projections. For PAEs, this amounts to a request for virtually every document in the respondent's possession created since January 1, 2008. Such requests are overbroad, unduly burdensome, and perhaps most important, will not provide the Commission with the information needed to meet its goals.

Gathering and assessing "all documents" about specific transactions will not tell the Commission how patent assertion activity is affecting the marketplace more broadly, or whether patent assertion by PAEs is having a different impact on the market than is patent assertion by non-PAEs. In this instance, the FTC proposes to collect every email, memorandum, draft, or note that is tangentially related to one of the broad aspects of PAE activity for which it has requested information. Such documents consist largely of scattered, subjective, and incomplete observations that, to use the words of the Paperwork Reduction Act regulations, have at best only "theoretical or potential, usefulness."[19] Indeed, documents by their very nature often do not report objectively verifiable fact, and must instead be assessed for their accuracy, reliability, completeness and finality, and then somehow weighed and aggregated with observations in other documents, if they are to provide any meaningful information. Aggregating and analyzing such documents in a manner that would allow the Commission to draw any meaningful conclusions about PAE activity would be an enormous and unwieldy task.

These obstacles are compounded by the sheer volume of documents requested -- likely tens of millions of pages of documents in the case of IV alone, to say nothing of the documents

[19] 5 C.F.R. § 1320.3(l).

requested from 39 additional Firms (or even more firms if IV's recommendations for broadening the scope of the study are adopted). It will almost certainly be impossible for the Commission to evaluate such a universe of documents and to reach complete, contextual conclusions about the implications of PAE activity.[20] Perhaps more important, one could not hope to effectively extrapolate from such a large group of specific analyses to draw a broader conclusion. Instead of enhancing the value of the study, these requests for "all documents" will diminish its value by misdirecting its focus and diverting resources. Simultaneously, these requests impose a heavy burden on respondents, as described in more detail below.

To the extent that the FTC believes that it needs documents to provide context for the data it proposes to collect, we suggest that such collection be limited to high-level documents that reflect the terms of transactions that have actually transpired, or strategies that were actually implemented. Documents such as board and investor presentations or regulatory disclosures reflect the culmination and finalization of ideas that were considered, refined, and accepted or rejected, and facts and data that were accumulated and validated. By weeding out preliminary and incomplete information and focusing on final and complete documents, the Commission can minimize the accuracy and reliability concerns inherent in the "all documents" requests.

With a broader scope of recipients and by collecting only high-level documents and the aggregated cost and revenue data that the Commission is already proposing to collect in Requests G and H, the Commission can learn how often PAEs engage in assertion activity and the results of that activity, and compare that to the impact of similar assertion activity by non-PAEs in the

[20] *See* 5 C.F.R. § 1320.3(l) (explaining that "practical utility" takes into account "the agency's ability to process the information it collects"); Office of Info. and Regulatory Affairs, Office of Mgmt. and Budget, *The Paperwork Reduction Act of 1995: Implementing Guidance for OMB Review of Agency Information Collection, Draft* 41 (Aug. 16, 1999) ("[A] collection of information does not have practical utility if . . . [it] can reasonably be expected to yield ambiguous and/or nongeneralizable results.").

wireless sector (and any other sector for which the Commission collects information from non-PAEs). We encourage the FTC to modify the document requests as describe below in order to focus its collection on the most useful documents, while imposing a more manageable burden on respondents.

### A. Several Document Requests Should be Limited to Final Planning, Decisional, or Strategy Documents Maintained in the Files of Officers or Directors (or Their Equivalent)

Document requests relating to the strategies or rationale underlying a Firm's business activities should be limited to high-level planning, decisional, or strategy documents. The FTC adopted such a limitation in its 6(b) study regarding Authorized Generics after receiving comments to the effect that its requests for "any documents" lacked practical utility and were overly broad and burdensome,[21] and we urge it to do the same here.

In order to capture sufficiently high-level documents, the requests should, at the very least, be limited to documents prepared by or for current officers or directors (or their equivalent). This is the approach currently used by the FTC for its initial evaluation of the competitive impact of proposed mergers and acquisitions under the Hart-Scott-Rodino Act,[22] and the FTC should likewise focus its document collection here on only the most authoritative documents. Similarly, in merger reviews the FTC recognizes that the size of the search group is a key determinant of the burden of a document production and has applied a presumptive 35

[21] FTC Notice, Request for Comments on Information Requests for Authorized Generics Study, 72 Fed. Reg. 25308 (May 4, 2007) ("[T]he request has been revised to seek only high-level planning, decisional, and strategy documents.").

[22] FTC, *Antitrust Improvements Act Notification and Report form for Certain Mergers and Acquisitions, Instructions* V (Aug. 18, 2011), http://www.ftc.gov/bc/hsr/hsrform-instructions1_0_0.pdf.

custodian limit in that context.[23] In contrast, the document requests as currently drafted would require searching the files of dozens if not hundreds of employees who may have prepared documents that would be responsive to the request. Thus, the document requests should be limited to those documents maintained in the files of current officers or directors (or their equivalent), and for those business decisions that are made below the officer or director level, the files of employees to whom they have delegated decision-making authority.

Finally, the FTC should only collect final, non-privileged documents. Final documents more accurately reflect a Firm's decision-making than do drafts, which is why the FTC requires only final documents, where available, for its initial review of mergers and acquisitions.[24] And, requesting only non-privileged documents would allow the FTC to collect exactly the same universe of information that it would otherwise receive, while sparing respondents the time and expense of preparing privilege logs. For example, by requesting (in Request F.5) "all documents Relating to the Firm's rationale for all Assertions identified in response to Request F," the Commission is asking for thousands (or perhaps hundreds of thousands) of documents relating to infringement analyses and litigation, all of which will be protected by the attorney-client and/or work product privilege. No useful purpose is served by forcing respondents to submit privilege logs containing tens or hundreds of thousands of entries for documents that will clearly be privileged.

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[23] Deborah Platt Majoras, Chairman, FTC, *Reforms to the Merger Review Process* 11-12 (Feb. 16, 2006), http://www.ftc.gov/os/2006/02/mergerreviewprocess.pdf (noting that it is "clear that the size of the search group is one of the most important determinants of the total cost of most merger investigations," and implementing a "presumptive limit of 35 employees per party because . . . search groups of that size are likely to be sufficient for the FTC to analyze the competitive effects of most of the transactions that the FTC reviews.").

[24] FTC, *Item 4(c) Tip Sheet* 4 (Apr. 26, 2012), http://www.ftc.gov/bc/hsr/4cTipSheet.pdf ("It has been the PNO's informal position for many years that . . . [i]f there is a final version [of a document], no drafts need to be additionally supplied unless the draft went to the Board.").

Thus, for the following requests, IV proposes replacing the words "all documents" with "final and non-privileged planning, decisional, or strategy documents maintained in the files of current officers or directors [or their equivalents] or, alternatively, employees to whom they have delegated decision-making authority."[25]

- D.2 ("Submit all documents Relating to the Firm's reasons or business strategy for organizing the Patent(s) into Portfolio(s) . . . .")
- F.1.e ("[S]ubmit all documents that reflect business strategy or financial research Relating to the Demand(s) identified in response to Request [F.1] . . . .")
- F.3.a.(8) ("[S]ubmit . . . all documents Relating to the valuation [of the cross-license]")
- F.5 ("Submit . . . all documents Relating to the Firm's rationale for all Assertions identified in response to Request F")

### B. Numerous Document Requests Should be Limited to a Subset of Highly Probative Documents

Other "all documents" requests should be limited to only highly probative documents, as proposed in the following line edits, and discussed in more detail below.[26]

| Request | Proposed Modification |
|---|---|
| **C.1.m.3** | Identify each Patent held by the Firm since January 1, 2008, and specify . . . whether any Person(s), other than the Firm, holds any legal rights to the Patent. As part of your response . . . submit ~~all documents(s)~~ a copy of any agreement Relating to the legal rights held; |
| **C.1.n.3** | Identify each Patent held by the Firm since January 1, 2008, and specify . . . whether any Person, other than the Firm, has an Economic Interest in the Patent, and . . . submit ~~all documents~~ a copy of any agreement Relating to this Economic Interest; |
| **C.3** | Submit presentations provided to investors on an annual or quarterly basis ~~all documents Relating to any communication since January 1, 2008 between the Firm and any investor or potential investor, financial or otherwise,~~ Relating to any Patent(s) held by the Firm since January 1, 2008. |

[25] These and subsequent proposals are in addition to our proposal to limit the universe of responsive patents as described in section IV above. Similarly, any proposed modifications to Requests C and D are in the event that the Commission does not eliminate these Requests, as proposed in section IV.

[26] These document requests should also be limited to final and non-privileged documents for the reasons described above.

| Request | Proposed Modification |
|---|---|
| **E.5** | ~~Submit all documents Relating to the Firm's Acquisitions identified in response to Request E.1, including but not limited to, market analyses, financial analyses, business plans, statements to investors and potential investors, and disclosures required by the Securities and Exchange Commission or any other Person.~~ |
| **E.6** | Submit ~~all documents~~ a copy of the sales or transfer agreement ~~Relating to~~ for each of the Firm's sales and transfers identified in response to Request E.2~~, including but not limited to, market analyses, financial analyses, business plans statements to investors and potential investors, and disclosures required by the Securities and Exchange Commission or any other Person~~. |
| **F.1.d** | Submit a copy of each Demand identified in response to Request F.1~~, and all documents reflecting communications Relating [to] the Demand~~; |
| **F.4** | For each license agreement identified in Response to Request F.3, submit a copy of the agreement ~~and all documents Relating to the agreement, including but not limited to, documents reflecting communications Relating to the license, documents summarizing sales made by the licensee, and documents reflecting arrangements to share revenue generated by the license~~. |
| **F.6** | Submit ~~all~~ documents sufficient to show ~~Relating to~~ the Firm's projected gross revenue or return-on-investment for all Assertions identified in response to Request F, ~~including, but not limited to, market analyses, financial analyses, business plans, statements to investors and potential investors,~~ and disclosures required by the Securities and Exchange Commission or any other Person. |
| **G.2** | Submit ~~all documents Relating to all~~ data sufficient to substantiate the costs and payments identified in response to Request G. |
| **H.2** | Submit ~~all documents Relating to all~~ data sufficient to substantiate the revenue identified in response to Request [H]. |

Instead of seeking "all documents," Requests C.1.m.3, C.1.n.3, E.6, and F.4 should be limited to agreements themselves. Such agreements, which alone constitute thousands of documents in the case of IV, provide the most accurate and reliable information about the terms and conditions of transactions entered into by a Firm. They can also more readily be compared to similar transactions entered into by other firms, than can the multitudes of emails, memoranda and notes that might relate to such transactions. For similar reasons, Request E.5, which seeks all documents relating to a Firm's acquisitions, should be struck in its entirety, as the preceding Request E.4 already seeks copies of the acquisition agreements themselves. Likewise, the portion of Request F.1.d that seeks "all documents reflecting communications Relating [to] the

Demand" should be struck in light of the fact that the Request already seeks "a copy of each Demand." Similar reasoning calls for a significant narrowing of Request C.3, which seeks "all documents Relating to any communication since January 1, 2008 between the Firm and any investor or potential investor." Far more useful than "all documents" are regularly prepared investor presentations, which paint a more complete and reliable picture of the communications between a Firm and its investors regarding particular patents.

The remaining "all documents" requests seek specific financial performance data (e.g., projected gross revenue, aggregated costs), and substantiation for such data. While we agree that such information is useful for purposes of the study, for the reasons already discussed, we do not believe that the FTC requires or could effectively utilize "all documents" relating to such data. Thus, we propose limiting those requests to documents or data sufficient to show and substantiate the data requested, as reflected above.

## VI. Other Requests are Duplicative of Information Otherwise Accessible to the Agency

Under the PRA and it implementing regulations, information collections should not be "duplicative of information otherwise accessible to the agency."[27] However, several of the FTC's requests seek precisely such information.

Information about a patent's assignment history, maintenance status, and pre-grant and post-grant prosecutions histories, which is requested in various subparts of Request C, is publicly available from the Patent and Trademark Office ("PTO"). For firms that do not regularly maintain this information, acquiring and assembling it would require a tremendous amount of time and effort. Moreover, those efforts would contribute very little to the FTC's study, as patent assignment and prosecution histories and related patent information have little bearing on

[27] 5 C.F.R. § 1320.5(d)(1).

the costs and benefits of patent assertion activity. Thus, it would be far more efficient and consistent with the PRA for the FTC to collect any such information directly from the PTO, should it find that such information would be useful for particular patents.

In other instances, the FTC seeks information that is duplicative of documents that respondents are asked to produce. Requests C.1.m.2 and C.1.n.2 (asking respondents to describe, for each patent, the nature of the legal rights and economic interests, respectively, held by other persons) require respondents to summarize information that they are already providing in response to the associated document requests (which seek "all documents" relating to such legal rights and economic interests). It would be burdensome and duplicative for respondents to describe such information, and it would also compromise the accuracy of the Commission's record because the documents themselves, particularly executed agreements, are the most complete and accurate sources of information.

More broadly, large portions of Requests E and F require respondents to summarize the documents they produce. For example, Requests E.4 and E.6 ask respondents to produce copies of acquisition and sale agreements,[28] while Requests E.1 and E.2 ask respondents to summarize information contained in those agreements, including the patents at issue, the other party to the agreement, and the date and financial terms of the acquisition or sale. Similarly, Request F.4 seeks copies of license agreements, while Request F.3 asks respondents to summarize information contained in those agreements, including the patents licensed, the date and length of the license, the parties to the license, and certain financial terms of the license.[29] To the extent

[28] Request E.6, as currently drafted, seeks "all documents Relating to the Firm's sales and transfers identified in response to Request E.2," which presumably includes copies of the sale agreement.

[29] Specifically, Request F.3.a.5 seeks the license's royalty rate and the base to which it is to be applied.

that respondents do not maintain the exact requested information in an easily accessible and reportable format, it is as readily available to the FTC as it is to respondents.

Finally, Request A asks respondents to "specify the steps taken by the Firm to respond to the Information Request." As described below, the burden associated with collecting and submitting information responsive to the FTC's requests as drafted already far exceeds the FTC's burden estimates; requiring respondents to specify the steps taken to gather the information will multiply that burden without yielding information useful to the Commission.

## VII. The Burden of Responding Will Far Exceed the FTC's Estimates and the Production Generated Will Far Exceed the FTC's Ability to Process and Review

The FTC estimates that IV's burden "to produce documents and prepare the response sought" will be between 90 hours and 400 hours, that labor costs will range between $3,984.80 and $19,097, and that non-labor costs per company will reach only $500.00.[30] The FTC does not provide a factual basis for its estimates, but IV does not believe that those estimates are an accurate reflection of the time and cost involved in responding to the study.

IV owns a large patent portfolio and understands that its compliance burden will be toward the upper end of the range of burden imposed on respondents. However, the estimated burden of complying with the proposed requests is substantially understated. In 2005, the American Bar Association's Section of Antitrust Law estimated that the average cost to comply with a "second request" under the Hart-Scott-Rodino Act was $5 million, and that the compliance cost in more complex cases was up to $20 million.[31] In a recent second request

[30] FTC Notice, Request for Comments on Information Requests to Patent Assertion Entities, 78 Fed. Reg. 61357 (Oct. 3, 2013).

[31] Comments of the Section of Antitrust Law of the American Bar Association in Response to the Antitrust Modernization Commission's Request for Public Comment Regarding the Hart-Scott-Rodino Second Request Process at 4 (Dec. 2005), *at*

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handled by Intellectual Venture's counsel, Arnold & Porter, 2,326,000 documents required review (after culling for date limitations and de-duplication). In the firm's experience, a typical review rate is no more than 500 documents/reviewer/day, yielding a time to review these documents of more than 45,000 hours. The contract attorney expense to review these documents would be almost $3 million, even before considering the expense of legal assistants, supervisory attorneys, and document production vendors. (The Commission's Paperwork Reduction Act estimate uses an average hourly rate of $52.20 for labor, which seems well under the appropriate rate. The rate (including overtime) for contract attorneys exceeds that number, and the average rate for associates and partners involved in responding to the study is likely to be comparable to the $460/hour used in connection with the Commission's cost burden estimate for revisions to its HSR premerger notification rules.[32])

The document production required to respond to the 6(b) study is likely to exceed the volume of documents produced in a second request. While a second request involves a single transaction and generally only one or a few of a firm's product lines, the 6(b) study seeks documents relating to thousands of transactions and the respondent's entire business. And while there is a presumptive limit of 35 custodians when responding to a second request, responsive documents could be found in the files of hundreds of IV employees. Finally, while a second request has a presumptive two-year relevant time period for documents and a three-year

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http://www.americanbar.org/content/dam/aba/migrated/antitrust/at-comments/2005/12-05/hsr_2nd_request_comm.authcheckdam.pdf.

[32] *See* FTC, Notice of Proposed Rulemaking, Premerger Notification; Reporting and Waiting Period Requirements, 77 Fed. Reg. 50057 (Aug. 20, 2012).

limitation for other information,[33] the Commission here proposes to seek documents dating back over five years. Thus, the review and production of documents is almost certain to be far more time-consuming and expensive than the Commission estimate.

IV and other respondents would also face significant costs beyond the mere review and production of responsive documents. Labor costs will include the cost of preparing a privilege log (which is likely to exceed $1 million given the tens of thousands of privileged documents called for by the study) and the cost of providing contractually required notice to thousands of counterparties to its acquisition and licensing agreements (all of which are confidential and are generally subject to notice requirements before disclosure). IV also disagrees with the Commission's Paperwork Reduction Act notice estimate that respondents will have a non-labor cost burden of no more than $500. Instead, the cost to electronically gather, process, de-duplicate, and load into a review tool millions of potentially responsive documents, store those documents for the months of review required, and produce them in a format acceptable to the FTC could easily cost an additional $250,000 or more.

Considering all these factors, there is good reason to believe that IV's expense in responding to the 6(b) study as proposed by the Commission would be at least as much as the $5 million average cost of a second request found by the ABA in 2005 -- which is more than *250 times* the estimated cost burden set forth in the Federal Register Notice.

[33] *See* FTC, Model Request for Additional Information and Documentary Material (Second Request) Instruction 1 (June 2010), *available at* http://www.ftc.gov/bc/hsr/introguides/guide3.pdf.

## VIII. Conclusion

For all the reasons described above, the information requests do not meet the requirements of the Paperwork Reduction Act, nor, more importantly, will they assist the Commission in meeting the goals of the 6(b) study. As currently drafted, the requests miss the opportunity to focus on the broader, economy-wide effects of patent assertion activity by different types of entities, and thus provide the Commission with no ability to compare the costs and benefits of PAE activity to its alternatives. The requests will also create enormous burdens for respondents, require unnecessary information, and generate a record far too large for the Commission to process efficiently. This combination may significantly delay the issuance of the report, which would greatly diminish its value. Because timely insights are critical, and IV is eager to work cooperatively with the Commission to ensure that it receives the information it needs to meet its goals in a timely manner, we respectfully urge the Commission to modify the requests as noted above.