

If you have any questions regarding the matters discussed in this memorandum, please contact any of the attorneys listed on Page 3 or call your regular Skadden contact.

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FTC Seeks Comment on Collection of Information Relating to Patent Assertion Entities

On September 27, 2013, the Federal Trade Commission announced that the four sitting Commissioners voted unanimously to seek public comments on a proposal to gather information to examine how patent assertion entities (PAEs) do business and to develop a better understanding of how they impact innovation and competition.¹ Specifically, the FTC will seek information from approximately 25 entities it categorizes as PAEs.² In addition, the FTC will request information from approximately 15 other entities that assert patents in the wireless communications sector, including manufacturers and other organizations engaged in licensing.

The FTC views this as a significant step in the search for answers to a number of complicated questions surrounding the impact that PAEs have on innovation, competition and consumer welfare. However, a question remains as to how the information sought will further what has been a vigorous debate as to what role, if any, existing antitrust and consumer protection laws should have in regulating PAE activity.

The proposed information requests data and information relating to many of the issues that were discussed during last December's joint FTC/DOJ workshop on PAE activity. Workshop participants and agency officials noted a lack of empirical data with regard to these issues. The FTC is seeking this data and information through its authority under Section 6(b) of the Federal Trade Commission Act, 15 U.S.C. § 46(b), which authorizes the collection of information through the issuance of a type of subpoena.

Proposed Information Requests

The proposed information requests, which will be open to public comment for 60 days, are detailed and expected to be burdensome to entities with significant patent holdings. The FTC proposes to seek the following information:

Corporate Structure — Describe the business or corporate structure, including all parents, subsidiaries, affiliates, etc., and identify any entities with a “contractual or other legal right to a share of revenues, profits, or other Economic Interest tied to profitability or financial performance of the Firm.” Here, the FTC is attempting to understand how ownership and economic interests impact innovation and competition.

Patent Ownership (request not applicable to manufacturing firms) — Identify every patent held since Jan. 1, 2008, and pertinent details about those patents, including whether other entities have any “legal rights” or “economic interest” in each patent, whether the patent is subject to FRAND and other SSO commitments, and each patent's assignment and assertion history.

Patent Portfolios (request not applicable to manufacturing firms) — Describe how the firm organizes and values patent portfolios and the rationale or business strategy for organizing those patents into portfolios.

¹ See www.ftc.gov/opa/2013/09/paestudy.shtm.

² The FTC is defining PAEs as “firms with a business model based primarily on purchasing patents and then attempting to generate revenue by asserting the intellectual property against persons who are already practicing the patented technology.”

Patent Acquisitions, Sales and Transfers — Information about each patent acquired, sold or transferred, whether individually or as part of a portfolio, including the financial terms (e.g., lump sum or ongoing payment). The request would seek all purchase agreements for acquired patents and “all documents relating to” the identified acquisitions and sales (e.g., market and financial analyses and business plans).

Patent Assertion Information — Identify all demands made, litigation pending and licenses entered since Jan. 1, 2008. The request seeks information about PAE’s efforts to compare allegedly infringing products with asserted patent claims; whether litigated patents were found infringed, invalid or unenforceable and whether injunctions, exclusion orders or damages were issued or awarded; and at what stage in litigation settlements were reached. These requests are directed at criticisms that PAEs are making assertions without sufficient due diligence and/or asserting weak patents for the purpose of extracting royalties that are less than the cost of litigation. The FTC seeks copies of settlements, license agreements and related documents.

Aggregate Cost and Revenue Information — Information regarding the costs incurred in acquiring, asserting and licensing patents and the revenue obtained in patent sales or transfers and in assertions, including demands, litigations and licensing.

Where Is the FTC Headed?

After the FTC collects public comments on this proposal, it will finalize its information requests and send out compulsory process orders to the selected 35 or more firms. The final requests will be published in the Federal Register with an explanation of the revisions made as a result of the public comments process. Once the FTC collects and reviews the information, the Commission will most likely issue a report with its findings. Those findings could result in recommendations for legislative and/or executive agency action. Depending on the findings and conclusions reached, the FTC could develop positions on whether certain activities are consistent with antitrust and consumer protection laws and whether those activities call for enforcement actions.

The FTC makes periodic use of its Section 6(b) authority, but the last similarly significant use of Section 6(b) occurred 13 years ago when the FTC sought additional information about generic drug competition and agreements among pharmaceutical companies in the context of certain provisions of the Hatch-Waxman Act. Less than two years after it sought public comments on those information requests, the FTC published a report with its findings that included legislative recommendations. Those findings also shaped its position on enforcement efforts in relation to generic drug competition, efforts that continue to this day.

Public Comment Period

The next step is for the FTC to receive comments on the proposed information request. Comments are typically public, and they must be received within 60 days of the proposal’s publication in the Federal Register, which will occur shortly.

The FTC invites comments on: (1) whether the proposed collection of information is necessary for the proper performance of the functions of the FTC, including whether the information will have practical utility; (2) the accuracy of the FTC’s estimate of the burden of the proposed collection of information; (3) ways to enhance the quality, utility and clarity of the information to be collected; and (4) ways to minimize the burden of collecting information.

Initial Impressions

The first step of the FTC’s inquiry is the public comment period, which provides an avenue for entities that expect to receive an information request and those that are only impacted by PAE activity to try to shape

the scope of the FTC's investigation. For example, PAEs will likely protest the burdens of complying with this request, and these comments will have to be taken into account by the FTC as it finalizes this proposal.

The second step is the collection and analysis of the requested data. Collection will likely occur under the standard confidentiality protections afforded by the FTC Act and Commission rules. The bigger question concerns what the analysis of the information will show. It is too early to predict the study's findings, but the proposed requests hint at some of the questions the FTC will seek to answer. For example, the requests going to how much licensing revenue is being returned to inventors and investors will be used to evaluate the incentives for further innovation. The requests concerning the types of patents being asserted could lead to recommended changes to patent policy rather than an antitrust solution. And the requests for agreements between PAEs and operating companies will allow the FTC to evaluate if those relationships have any discernible impact on competition at all.

Voices on all sides of the debate over the impact of PAEs on innovation and competition will undoubtedly weigh in on what is likely be a long-term project at the FTC.

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