

# Tech Patent Transaction Marketplace

## *Maximizing Value for the Client*

Washington State Patent Law Association

- May 2013 -

Prodigy®<sup>IP</sup>

INTELLECTUAL VENTURES®



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ATTORNEYS AT LAW

# Speaker Information

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- ▶ **Gregg Choe**

- Prodigy IP – Principal

- ▶ **Dylan Hargreaves**

- Prodigy IP – Principal



- ▶ **Douglas Grady**

- Foster Pepper – Partner, Intellectual Property & Transactions Group



- ▶ **Byron Springer**

- Intellectual Ventures – Chief Counsel, Acquisitions



# Disclaimer

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This presentation is intended for educational purposes only and is not intended to be legal advice.

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# Outline

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- ① Introductions
- ② Market Overview
- ③ Selling
- ④ Litigating
- ⑤ Buying
- ⑥ Wrap-up
- ⑦ Q & A

# Tech Patent Transaction Marketplace

## *Maximizing Value for the Client*

### Market Overview

- Gregg Choe

# Cottage Industry... Not Anymore

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- ▶ Threat licensing led the 80's with TI & IBM in the US.
  - Motivations driven not only to defend from non-US competition and but to prop operating revenue
  - Heavily reliant on small network of in-house/outside counsel relationships
- ▶ Since,
  - Licensing has become an “accepted” business practice (at least for “operating companies”)
    - ◆ NPEs still carry an often biased stigma
  - Buying and Selling of patents has matured
  - Burgeoning, global patent ecosystem

# New World Patent Ecosystem

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## ► Network of Resources

- Offshore Technical India, Ukraine, US?!
- Public Resources: Google Patents/USPTO, Patent Buddy, etc.
- Private Resources: UBM/SI, Article One, etc.
- Tools: Delphion/Thomson, Innography, Patent Café, etc.
- Growth of outside counsel and in-house expertise

## ► Diverse Monetization Channels

- NPEs: Round Rock, Walker Digital, Alliacense
- IP funds: IV, AST, RPX
- Public “licensing companies”: Acacia, Wi-Lan, Mosaid, ARM
- JVs & Alliances: Rockstar, Bridge Crossing, patent pools

# Good v. Evil?

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## ► Not so clear these days... Don't blame the messenger?

### □ Interesting partners:

- Acacia + Microsoft
- Pendrell + Nokia
- Steelhead + BT
- Unwired Planet + Ericsson
- Acacia + Rambus
- Round Rock + Micron
- Digtude (ACP) + Apple + Adaptec... now RPX!

## ► Lone Rangers:

### □ Honeywell, GE, Universal Display, Qualcomm

## ► Friend + Enemy = Frenemy?

### □ Samsung + Apple



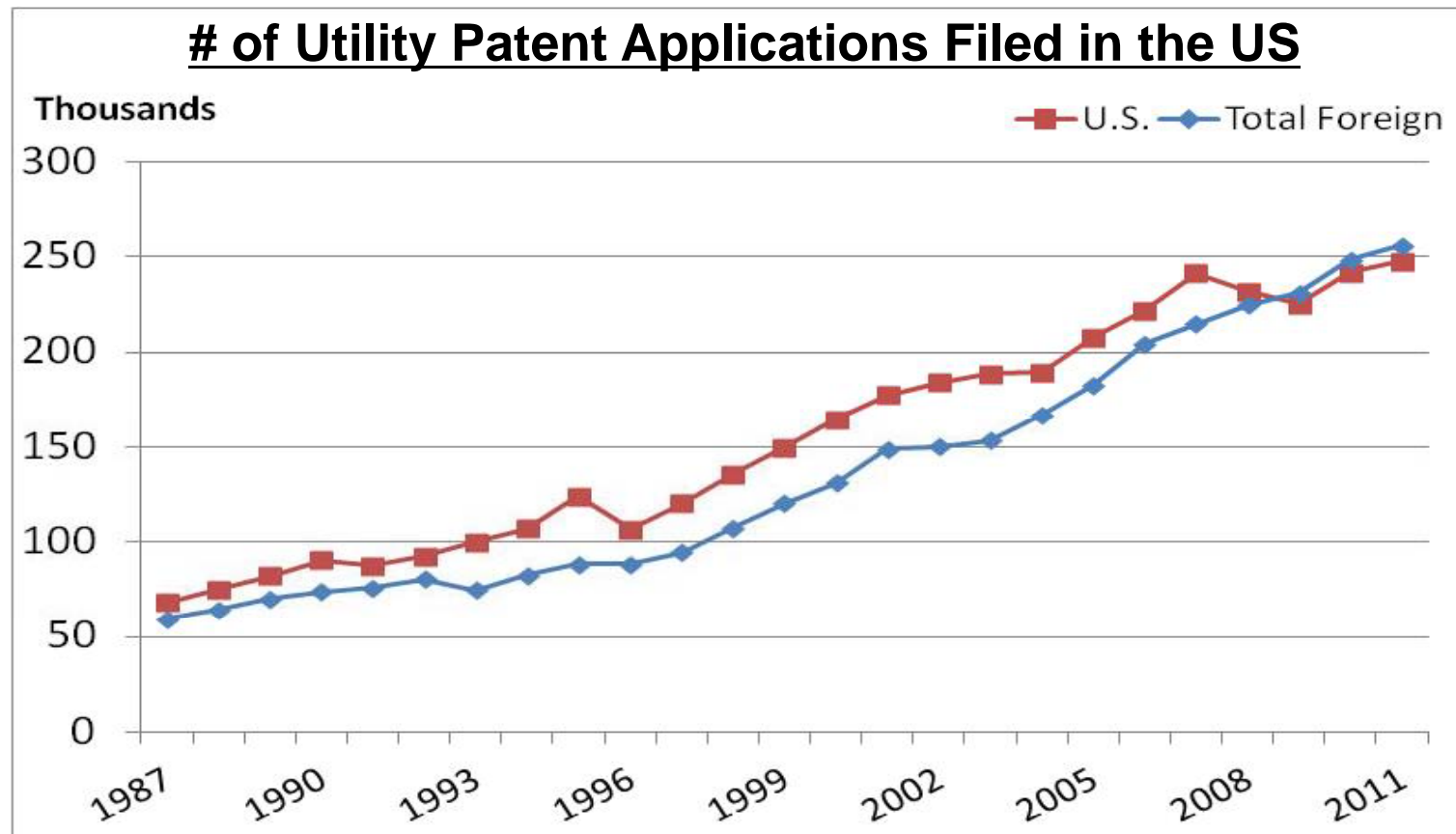
# So Who's the 800-pound Gorilla

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- ▶ May have started with TI and IBM but the pervasiveness of technology has introduced many “giants”
  - Samsung: ~5,000 patent grants in 2012 (~1,400 grants in '02)
  - IV: \$5 billion fund holds over 30,000+ assets
- ▶ Less obvious but now infamous
  - NTP
  - Lemelson
  - Carnegie Mellon
- ▶ Who's next?
  - Asian funds? – ETRI, ITRI, Intellectual Discovery
  - Your startup, single inventor, old industry?

# Looking Abroad

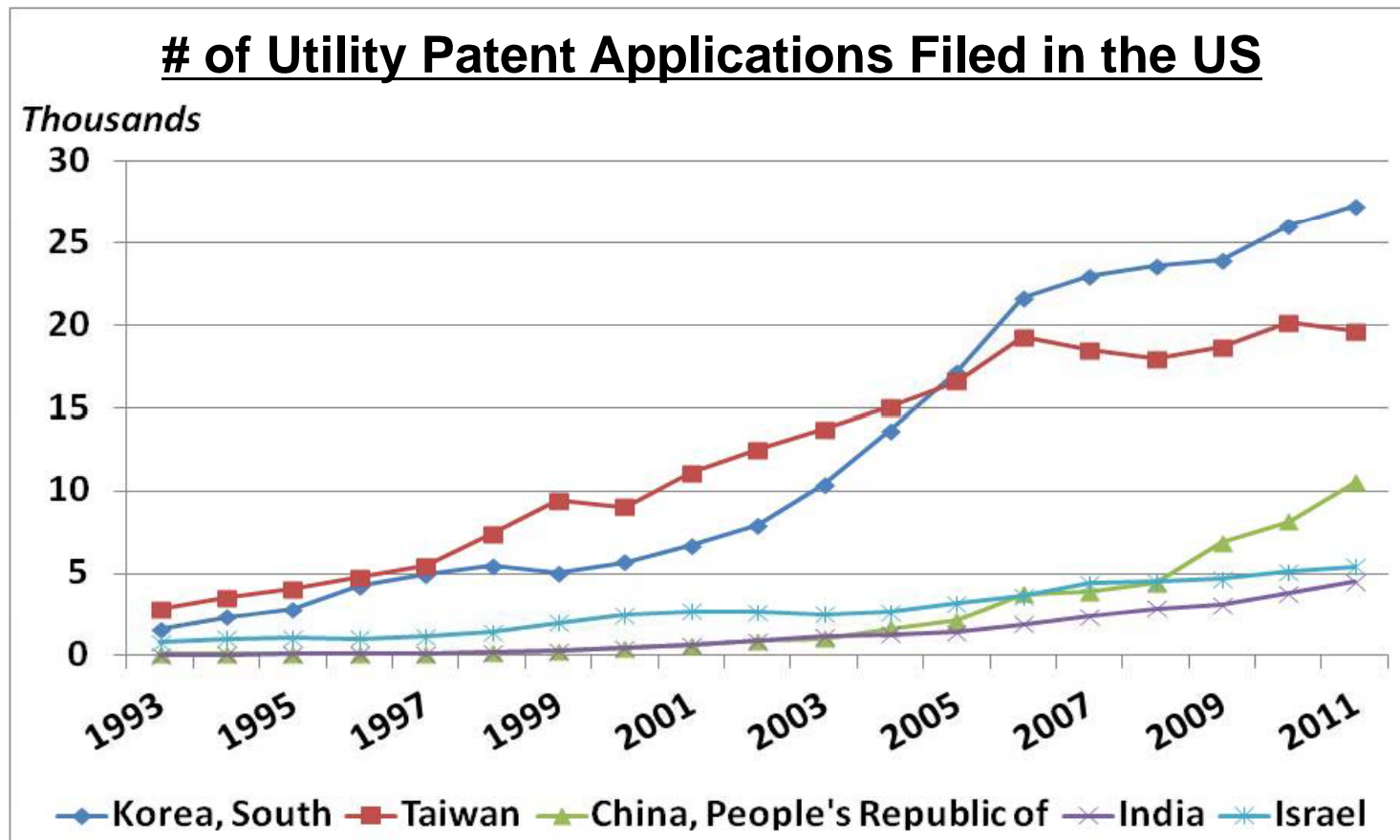
- ▶ 2009, Non-US filers overtook US filers



Source: USPTO 2013

# Patent World “BRIC” Countries

- ▶ ZTE: top filer of PCT Patent Applications in 2012<sup>a</sup>



Source: USPTO 2013; <sup>a</sup>WIPO 2013

# Mega Deals

- ▶ Beginning of a trend or just a bubble?

| Portfolio | Technology     | Assets | Buyer                               | Price   | Announced |
|-----------|----------------|--------|-------------------------------------|---------|-----------|
| Novell    | Enterprise S/W | 1,000  | Consortium (MSFT, Apple, EMC)       | \$0.45B | 2010      |
| Nortel    | Wireless       | 6,000  | Consortium (Apple, MSFT)            | \$4.5B  | 2011      |
| Motorola  | Mobile         | 17,000 | Google                              | \$12.5B | 2011      |
| AOL       | Internet       | 1,000  | MSFT (& Facebook)                   | \$1B    | 2012      |
| Kodak     | Imaging        | 1,000  | Consortium (Apple, MSFT, Google...) | \$0.5B  | 2012      |

# Asset Size Really Matter?

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- ▶ **YES:** strength of a portfolio focused on asset count
  - Useful for operating companies engaged in/acquiring for:
    - ◆ Cross license discussions
    - ◆ M&A, New market entrance
- ▶ **NO:** rulers tossed out for measuring the higher stack
  - Driven by willingness to litigate of NPEs, Research Institutions, Sponsored Funds
  - Quality over quantity
- ▶ **Maxim endures:** a patent is an exclusive right
  - More patents simply tilts the odds, especially if assets are to be litigated. But you only need one to stick.

# The Rest

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- ▶ “Mega deals” represent a fraction of transaction volume
- ▶ Many stand-alone IP deals happening off the radar
  - Typically < 20 patents (plus applications/non-US counterparts)
  - Typically \$500K - \$3M transaction range
- ▶ Aggregators (i.e. IV, RPX, small NPEs) drive significant volume
  - More operating companies are starting to participate in the secondary market and building in-house IP acquisition teams
  - Even VCs seeking assets to support their portfolio companies
- ▶ Wild Cards: Ocean Tomo, IPXI
- ▶ Advisors and Brokers play a significant role in the market

# Tech Patent Transaction Marketplace

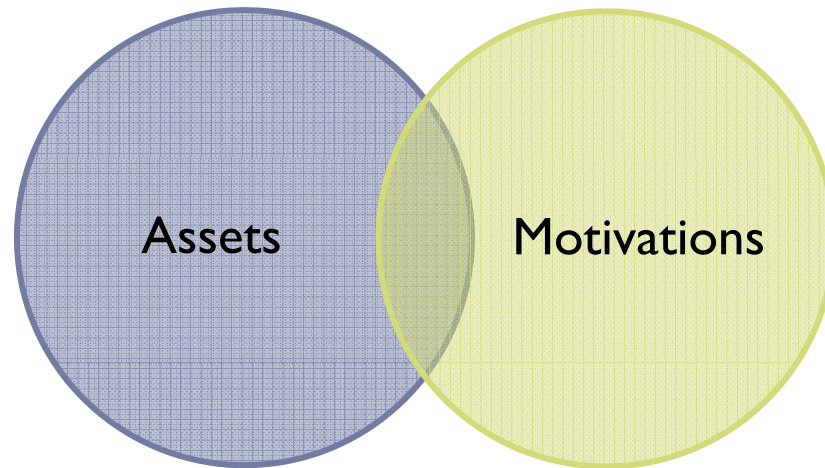
## *Maximizing Value for the Client*



Selling  
- Dylan Hargreaves

# Which Clients? Which Assets?

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- ▶ Issued v. Pending
- ▶ US v. Non US
- ▶ Current infringement v. Future Potential
- ▶ Core v. Non-Core
- ▶ Annuities due, end-of-life
- ▶ License-back required
- ▶ Strategic v. \$\$\$
- ▶ Near-term v. Long-term
- ▶ Desired deal terms
- ▶ Seller resources & priorities
- ▶ Exiting a business/market



# Client Wants to Sell, Now What?

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## ► In-House

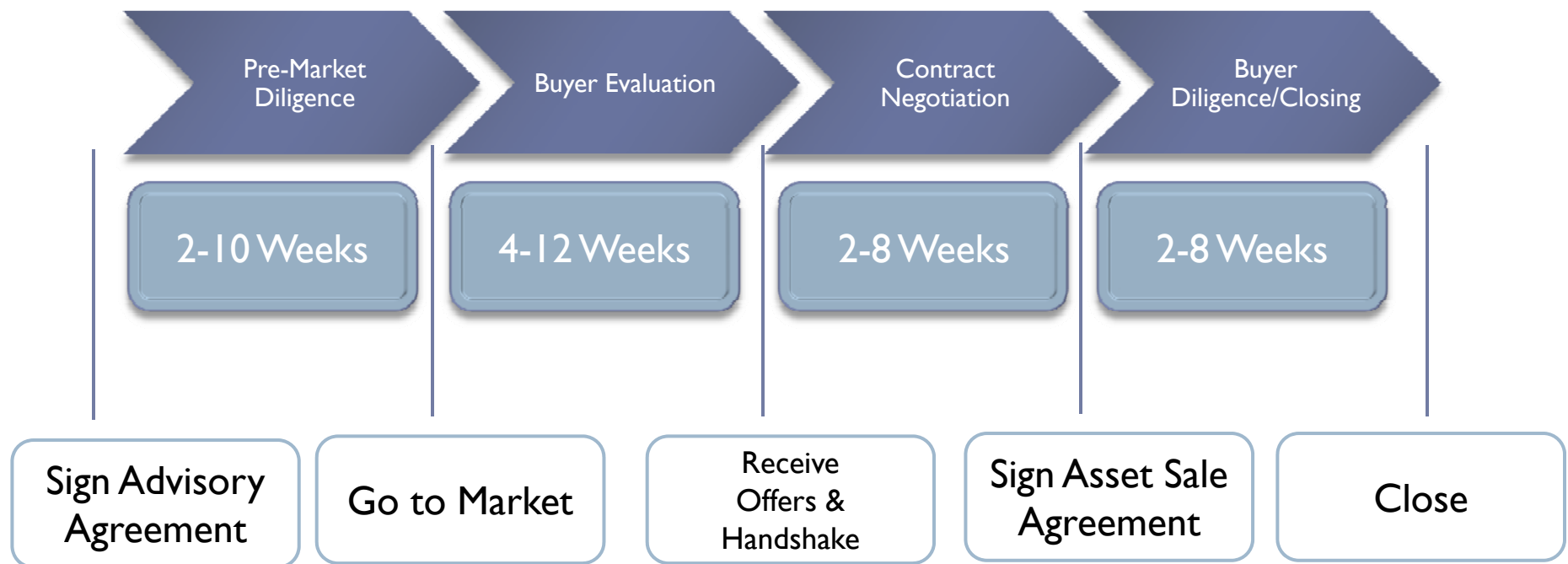
- Know the portfolio & trust factor
- Collect the fees

## ► Broker/Advisor

- Fee: Retainer + Claim Chart Costs + Success Fee (10-40%)
- Exclusivity Period (6 months and up)
- Value proposition:
  - ◆ Access to established network of buyers
  - ◆ Know how to highlight asset strengths
  - ◆ Provide real-world pricing guidance
  - ◆ Running a bid process keeps bidders honest and maximizes value

**Recent study by ROL  
Group estimated there  
were more than 250  
Brokered Deals on the  
market in 2012**

# Brokerage Process & Timeline



# Who's Buying?

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## ▶ Operating Companies

- Most F100 Tech Companies have a deal team and process
  - ◆ Limited resources but bigger budgets (theoretically)
- May use “buy-side” agents to create market buffer
  - ◆ Reduce exposure to license demands and moderate pricing

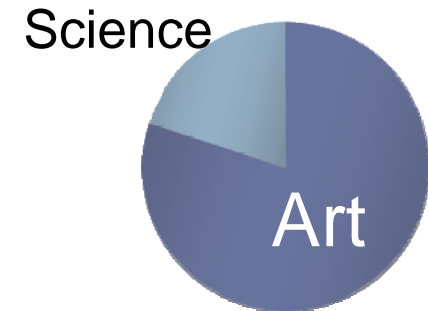
## ▶ Aggregators (“NPEs”)

- Offensive
  - ◆ Intellectual Ventures, Acacia Research, Rembrandt, IP Navigation
- Defensive
  - ◆ RPX, Allied Security Trust (AST), Unified Patents
- More NPEs coming online everyday

# What's it worth- Valuation

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- ▶ **Buyer's willingness to pay, period**
  - No damages models or experts here
  - Ranges vary greatly from buyer-to-buyer
  - Not much in the way of comps either
- ▶ **Patents are a unique asset**
  - Reducing the asking price of a portfolio to \$0.99 won't entice reticent buyers
- ▶ **Price-per-patent debunked**
  - 2% of the patents form the basis of 95% of the value
- ▶ **\$1M is the magic number for buyers and sellers**



# What do brokers look for?

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- ▶ Lots of bites at the apple
- ▶ Current infringement- Very few buyers have the resources and foresight to be placing “future bets”
- ▶ Detectability is everything- no discovery in a sales process
  - Reverse Engineering is expensive, googling not so much
- ▶ Clean chain-of-title & crisp inventor assignments
- ▶ Lack of encumbrances
  - Sloppy licenses blowup deals all the time
- ▶ Realistic clients- not every patent is worth \$1M... or even \$100k...or even \$10k

# Tech Patent Transaction Marketplace

## *Maximizing Value for the Client*



Litigation: What's the Risk-Adjusted,  
Net Present Value of Monetization via  
Civil Action?  
- Douglas Grady

# Monetization via Litigation: Downside: Time to \$

## Patent Holder Success Rates, 1995-2011

**No NPE: 34%**

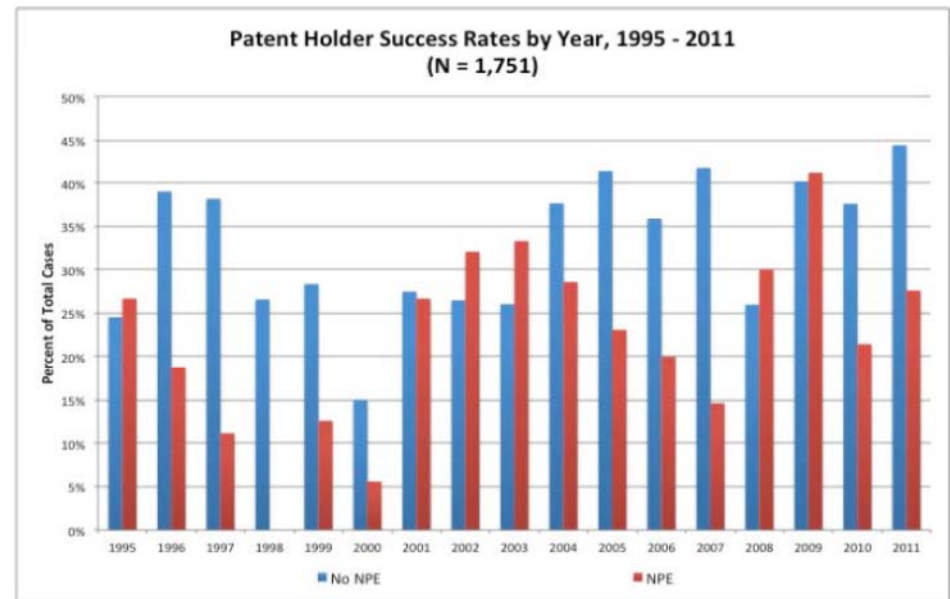
(N=1,390)

**NPE: 23%**

(N=361)

**All Cases: 32%**

(N=1,751)



*All Decided Patent cases, reported Westlaw 1995-2011 (no settlements, no Reexamination/PGP statistics included).*

Source: Michael J. Mazzeo, Jonathon Hillel & Samantha Zyontz, Do NPE's Matter?: Non-Practicing Entities and Patent Litigation Outcomes, [Draft version, May 2013; "DO NOT CITE OR QUOTE"]

# Monetization via Litigation: Downside: Time to \$

## District Courts Pendency

Overall, time-to-trial appears to have remained steady at about **2.5 years** since 2005, and no significant variations are noted since 1997. However, in recent years, as case volume has risen, time to trial has risen slightly.



Source: Price Waterhouse Coopers 2012 Patent Litigation report.

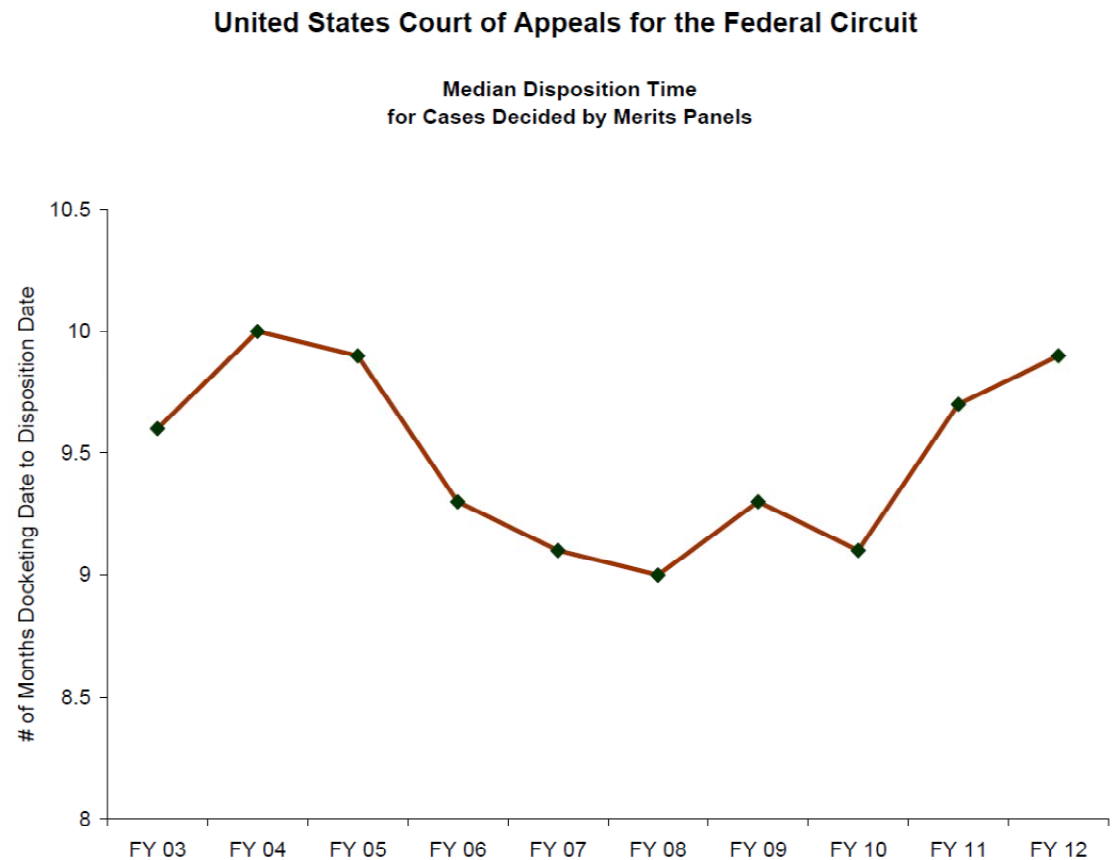


# Monetization via Litigation: Downside: Time to \$

## CAFC Pendency

Median time (in months) from docketing date to decision date in cases decided on the merits: **between 9 and 10 months.**

Source: CACF Statistics visited 5/2013; median time (in months) from docketing date to decision date in cases decided on the merits:



# Monetization via Litigation: Downside: Time to \$

## Reexamination Pendency

Filing to Certificate: **26 mos.**

(*Ex Parte* plus *Inter Parte*)

Filing to *Ex Parte* Cert: **21.7 mos.**

Filing to *Inter Parte* Cert: **30.3 mos.**

Source: USPTO Filing Data Reports, Q4 Ending 31 December 2012.

## Reexamination Filings

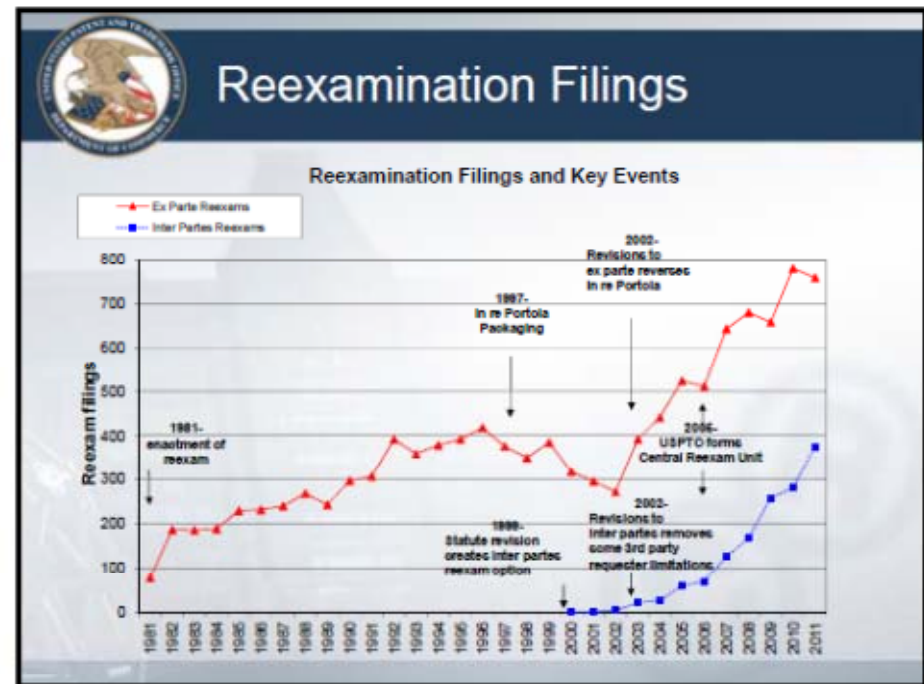
1980: ~80

1990: ~300

2000: ~300

2010: ~780

Source: Presentation of Remy Yucel, Director of CRU, Presentation of May 13, 2012, Austin, Texas.



Source: Presentation of Margaret A. ("Peggy") Focarino, Commissioner for Patents AIPLA Presentation of May 11, 2012, Austin, Texas.

# Monetization via Litigation: Downside:

## Time to \$

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### **Aggregated Pendency = Time to Money**

- |  |                 |
|--|-----------------|
| ▶ PGP pendency (pre-suit filing?)            | [+N months]     |
| ▶ District Court (“DC”) pendency             | 30 months       |
| ▶ Reexam pendency (post-DC filing)           | 26 months       |
| ▶ Reexam appeal to CAFC (?)                  | 9 months        |
| ▶ DC resumes (new claims & <i>Markman</i> ?) | [+N months]     |
| ▶ CAFC appeal of DC action                   | <u>9 months</u> |

**Aggregated Averages**

**6 yrs, 2 months**

# Monetization via Litigation: Downside: Damages Uncertainty

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- ▶ “... the portion of the realizable profit that should be credited to the invention, as distinguished from non-patented elements, the manufacturing process, business risks, or significant features or improvements added by the infringer ” *Georgia-Pacific* factor 13
  - Courts have been applying greater scrutiny to damages assessments in patent infringement in the wake of *Uniloc*’s elimination of the 25 percent rule of thumb for royalty calculations.
  - Courts still trying to determine what is best
  - Difficult to know how damages modeling will “feel” to a jury, and/or how a judge will navigate damages in a *Daubert* setting.

**Damages uncertainty = ROI uncertainty**

# Monetization via Litigation: Downside: Damages Awards Decreasing

Compared to 2011, there was 15 percent fewer defendants named in the Eastern District of Texas and District of Delaware in 2012; success rate is 55.7% in EDTX, and 41.7% in DEDC – then a steep drop.

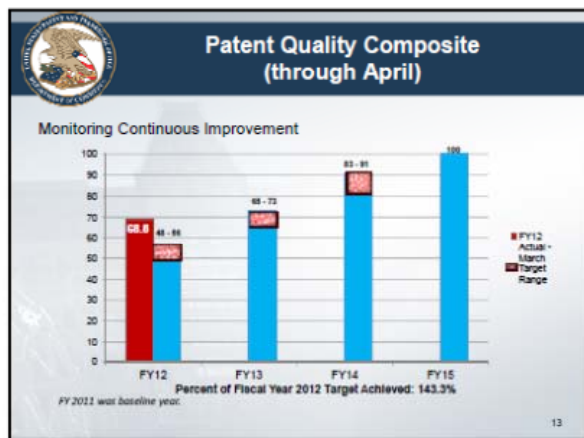
**Continued venue movement *away* from EDTX, DEDC and other high-damage award venues may result in a commensurate aggregated *decrease* in damages awarded.**

*Source:* Price Waterhouse Coopers 2012 Patent Litigation Study; James Pistorino, “Perkins Coie’s 2012 Trends in Patent Case Filings and Venue”; post-*Uniloc* academic papers.

Chart 8. District Court rankings: 1995 to 2011

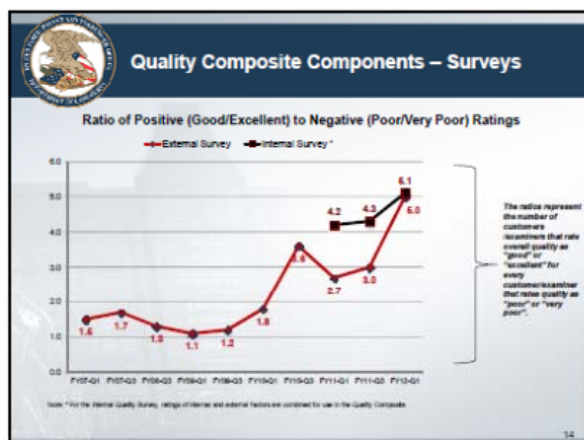
| Overall rank | District                                   | Median time-to-trial (in years) | Rank | Overall success rate | Rank | Median damages awarded | Rank |
|--------------|--|---------------------------------|------|----------------------|------|------------------------|------|
| 1            | Virginia Eastern District Court            | 0.97                            | 1    | 34.1%                | 5    | \$36,025,989           | 1    |
| 2            | Delaware District Court                    | 1.90                            | 4    | 41.7%                | 3    | \$20,636,247           | 2    |
| 3            | Texas Eastern District Court               | 2.17                            | 6    | 55.7%                | 2    | \$8,782,738            | 5    |
| 4            | Wisconsin Western District Court           | 1.07                            | 2    | 31.4%                | 7    | \$4,730,027            | 9    |
| 5            | Florida Middle District Court              | 1.74                            | 3    | 57.1%                | 1    | \$151,392              | 15   |
| 6            | California Central District Court          | 2.28                            | 7    | 32.4%                | 6    | \$6,728,379            | 7    |
| 7            | Texas Southern District/ Bankruptcy Courts | 2.00                            | 5    | 20.5%                | 15   | \$11,042,883           | 4    |
| 8            | Texas Northern District Court              | 2.42                            | 9    | 38.7%                | 4    | \$1,756,750            | 13   |
| 9            | New Jersey District Court                  | 2.73                            | 13   | 28.8%                | 11   | \$16,976,883           | 3    |
| 10           | New York Southern District Court           | 2.65                            | 11   | 29.3%                | 9    | \$3,269,254            | 11   |

# Monetization via Litigation: Upside: Patent Quality Increasing



**2012 NEW: USPTO is deliberate and intentional about improving patent quality and applicant satisfaction.**

- ▶ Quality of patent review increasing
- ▶ Goal setting and monitoring increasing
  - See, e.g., graph at upper left
- ▶ Applicant outreach increasing
  - See, e.g., graph at lower left
- ▶ Patent application backlogs decreasing at a significant rate
- ▶ Pendency times decreasing



**Consequently, future issued patents might decrease in susceptibility to § 102, 103 challenges, reducing litigation uncertainty.**

Source: Presentation of Margaret A. ("Peggy") Focarino, Commissioner for Patents AIPLA Presentation of May 11, 2012, Austin, Texas.

## Monetization via Litigation: Upside: Service provider quality increasing

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Contingent fee contingent fee/revenue service providers of all types are now constantly in touch and competing for assets/deals:

- ▶ Contingent-fee law firms that (now) cover costs and fees, resulting in \$0 gross lay-out of cash to patent holders
- ▶ Contingent fee entities performing directed prosecution and plan future assertion/licensing schemes
- ▶ Contingent fee entities competing against smart, silent and hyper-connected patent brokers
- ▶ Patent brokers with connections to contingent-fee law firms
- ▶ Smart people with money

# Litigation: Summary

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- ▶ **Generally: Odds of Winning?**
- ▶ **Trends *DISFAVORING* Litigation to Maximize Value**
  - Considerable time to revenue – time increasing in wake of AIA
  - Some murkier damage modeling and predictability in wake of *Uniloc*
  - Decreased aggregated damages awards for plaintiffs the future [?]

## **Trends *FAVORING* Litigation to Maximize Value**

- Patent quality increasing
- Diversity of, and competition amongst, and skill-sets of, contingent fee/revenue service providers increasing

**CONCLUSION: Litigation is an option; the asset/patent(s) nature and quality determines whether it should be the *first* option.**



# Tech Patent Transaction Marketplace

## *Maximizing Value for the Client*

Buying  
- Byron Springer

# Reasons to Buy

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- ▶ **Complete Portfolio Around Product Offering**

- Exclusion of Competitors
- Company Valuation Benefits

- ▶ **Alternative to Licensing**

- Research determines requirement
- Response to assertion

- ▶ **Use in Strategic Negotiations**

- Cross-license discussions
- Defense against competitor assertions

- ▶ **Monetization**

- Complete Portfolio for sale
- Supplement Licensing Options

# Define a Process and Resources

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- ▶ Using In-house resources
  - Cheaper
  - Less experienced – draw on personnel
  - Broadcasts interests to marketplace
- ▶ Using brokers/consultants
  - Costs
  - More experienced
  - Can make confidential inquiries
- ▶ Shopping
  - Patents in market
  - Patents of interest
  - Timing

# Valuation – What Are You Willing to Pay?

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- ▶ Based on Reason to Buy
- ▶ Factors to Consider
  - Next best alternative – cost and time of in-house development
  - Complete coverage or key coverage
    - ◆ Number of patents required
    - ◆ Bargaining chip in cross-license discussions
    - ◆ Valuation benefit for acquisition or strategic partnership
  - Cost of defense and potential exposure
  - Ability to monetize
    - ◆ Discounted cash flow
    - ◆ Comparables
    - ◆ Very private marketplace
  - Total Cost of Ownership – the gift that keeps on giving

# Deal Structure

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- ▶ Outright Purchase
- ▶ Options – Build Portfolio
- ▶ Non-cash consideration
  - Stock/warrants
  - Patents
  - Business relationship
- ▶ Revenue Share
  - Gross or net?

# Due Diligence – What to Watch For

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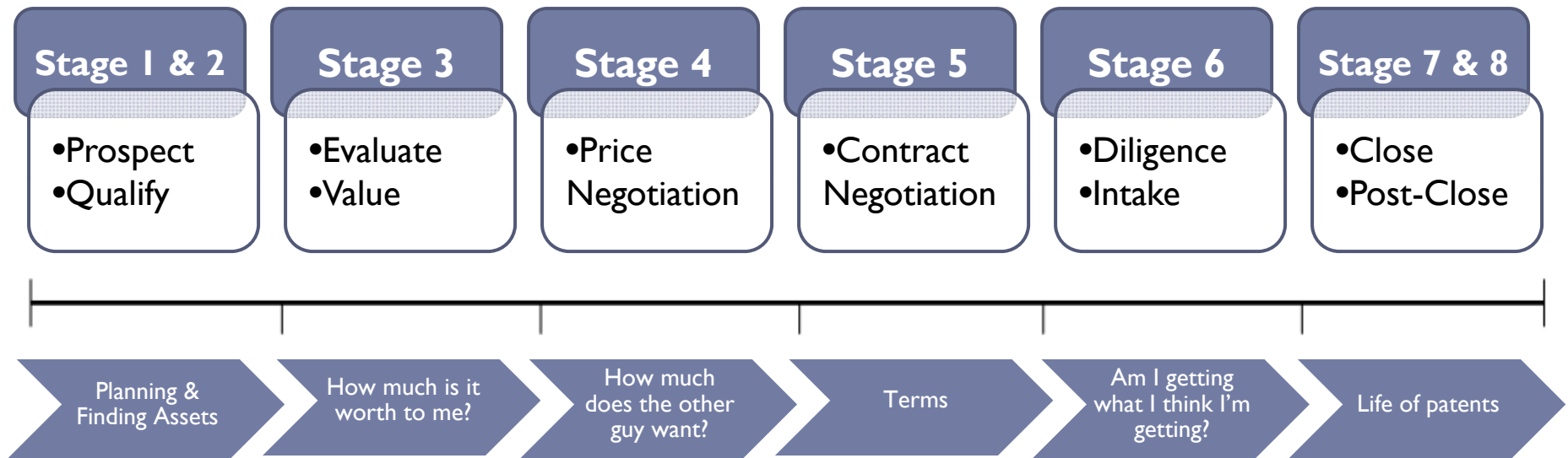
- ▶ File history – does the patent mean what it says?
- ▶ Individual patents or entire family?
  - Terminal disclaimers
- ▶ Title, title, title
  - Inventor assignments
  - Employment agreements
  - Corporate authority to sell
  - Daisy chain
- ▶ Encumbrances
  - Security interests – PTO and UCC
  - Licenses, covenants and other monetization restrictions
  - Horner's Nest issues

# Contract Terms

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- ▶ **Proper Assignment Language**
  - Get all rights – e.g., causes of action
- ▶ **Reps and Warranties – sufficient for your intended purpose**
  - Authority
  - Title
  - Encumbrances
  - Any hair?
- ▶ **Grant Back/Reservation of Rights**
  - ASR
  - Just another encumbrance – affects valuation

# Sample Acquisition Process





# Tech Patent Transaction Marketplace

## *Maximizing Value for the Client*

### Wrap-Up

# Key Takeaways

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- ▶ Mega deals are a thing of the (recent) past... probably
- ▶ Valuation is in the eye of the beholder
- ▶ Selling is a viable alternative to litigating but it has its own challenges
- ▶ More and more buyers coming online
- ▶ AIA is changing the monetization calculus

# Q & A

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# Tech Patent Transaction Marketplace

## *Maximizing Value for the Client*

## Appendix

# Prodigy IP

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- ▶ Founded in 2012; Based in Seattle, Washington
- ▶ A full service patent transaction advisory practice to serve the high-tech community
- ▶ Bring comprehensive buy-side experience to the sell-side
  - Advised on more than 75 stand-alone IP transactions originating from the US, Europe and Asia since 2009
- ▶ Understand market dynamics to maximize value for clients by matching the right buyers with the right sellers
- ▶ Client minded approach to achieve desired outcome

Learn more at [www.prodigyip.com](http://www.prodigyip.com)

# Foster Pepper

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- ▶ For more than a century Foster Pepper has represented publicly traded corporations, closely held businesses, commercial and investment banks, municipalities, government agencies, professional corporations, partnerships, joint ventures, and individuals.
- ▶ With 120 lawyers located in Seattle and Spokane, Washington, our extensive legal experience and community involvement allows us to successfully navigate complex and politically sensitive projects, as well as efficiently staff smaller, less complex matters. We provide clients with quality legal advice and responsive service. We also offer value-added services, including regular client education programs, legislative updates, and timely articles on legal



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# Intellectual Ventures

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