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MAJOR PATENT PLAYERS AND THE ROLES THEY PLAY

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I. Abstract

The prospect of buying, selling and licensing patents is becoming more mainstream; however, the patent monetization landscape is quickly evolving. How are the major patent players changing and how can the likelihood of a successful transaction be increased? Discussion topics include an analysis of major patent players, deal points from buyer and seller perspectives, and historical trends and future direction of the patent monetization landscape.

Key topics that will be covered include:

- Who is buying patents? Selling patents? Licensing patents?
- How are patents valued?
- What are unique challenges to closing patent transactions?
- How is the patent transaction marketplace changing?

II. Introduction

Innovators are often not satisfied with the returns from their efforts or the costs associated with managing ongoing R&D. Additionally, the strategic direction of a company may change, thus causing a product line to become non-core or obsolete. If either of these scenarios occurs, what options do innovators have to capitalize on the result of their R&D?

Innovation can often result in patent coverage, creating a legal right to exclude others from practicing the patented technology for a certain period of time. The resulting value of the patent portfolio can take many forms. A patent can be used offensively against a competitor selling an infringing product, defensively against an aggressor to fend off a patent infringement allegation, as evidence of a company's innovative culture, and/or as proof to potential investors of appropriate protection of key innovative assets. All of these types of value are real and critically important to a business, yet they are primarily intangible and illiquid. Two popular methods for extracting value from patents are selling the patent rights for cash and/or a percent of licensing revenues, or licensing the patents (either through enforcement or strategic programs).

While patent licensing has been mainstream for some time, companies, individual inventors and investors from all industries are looking to newly formed markets and channels to buy and sell patents. This may appear to be a simple proposition, but who are the buyers? How are buyers and sellers brought together? What drives value? These questions will be answered throughout this paper.

III. Major Patent Players and the Roles They Play

Any functioning market requires buyers, sellers and an infrastructure through which the relevant parties can communicate about and transfer goods and services efficiently. While no formal exchange has emerged, many private channels have laid the groundwork for a multi-billion dollar patent monetization marketplace. The following section provides information on patent

buyers, sellers and intermediaries with the hope of offering insight into an otherwise private marketplace. Additionally, this section highlights many of the more publicized industry participants as examples of the major patent players, but is certainly not all inclusive.

a. Who are the Buyers?

Why buy a patent asset? The answer to this question really depends on the buyer.

Patent buyers can typically be thought of as three unique types of entities: 1) Patent Aggregators, 2) Licensing/Assertion Companies, and 3) Operating Companies.

Non-Practicing Entities (“NPEs”), such as patent aggregators and licensing/assertion companies, are very active in the patent monetization market. NPEs are typically entities with little or no intention of manufacturing or marketing a patented invention; instead, opting to enforce its patents against one or more infringers without the concern of cross-licensing or counter-assertion. NPEs include a diverse group of IP acquisition and finance companies. The financial value of a patent to NPEs can be calculated differently than for operating companies. NPEs typically look to generate revenue solely by licensing and/or litigation. As a defensive measure, firms like RPX Corporation and Allied Security Trust (see below) acquire patents for strategic investors, members, or subscribers. These firms claim to not enforce patents, but rather, they acquire patents that may be, or are currently, enforced against their “members”. These defensive protection services seem to be gaining in popularity.

As intellectual property is becoming a more mainstream asset class, diversified hedge funds and other financial institutions are also becoming players in this market. Collier Capital, as an example, is an investment firm that has acquired, among other assets, IBM’s portfolio of medical-device and health-care patents. Fortress, a hedge-fund and private-equity group, is also active.¹ According to information from PatentFreedom and RPX, over the last decade, NPEs have raised between \$6 and \$8 billion in private capital to acquire patents to use offensively against companies that manufacture and sell technology products and related services. Lawsuits initiated by NPEs grew nearly 300 percent during this period and now represent 16 percent of all patent litigation in the U.S.²

1. Patent Aggregators

Patent aggregators serve a unique purpose in the patent monetization marketplace. Generally, patent aggregators pool resources of members or investors to acquire a patent of interest. Theoretically, the cost of acquiring a patent is spread across multiple parties and those parties have the opportunity to purchase rights to that newly acquired asset. The primary difference between types of patent aggregators is the purpose for acquiring patents. Specifically, patent aggregators may be pooling patent portfolios for offensive purposes (i.e., licensing and/or litigation) or defensive purposes (i.e., protecting members from licensing efforts and/or litigation). The following section provides additional information on select patent aggregators.

Intellectual Ventures

Intellectual Ventures (“IV”) was founded by Nathan Myhrvold and Edward Jung in 2000, “driven by the belief that invention is the highest-value and most interesting part of the commercial food chain.” Myhrvold formerly served as Microsoft’s Chief Technology Officer, and Jung is Microsoft’s former Chief Architect. IV invests in innovations and technologies across a broad spectrum of industries – everything from computer hardware to biotechnology, and consumer electronics to nanotechnology. The company has acquired inventions and related IP from a combination of companies, individual inventors, government agencies, and universities. In addition, IV has contracted with numerous inventors to develop its own IP, much of which is still pending in various patent offices around the world.³ IV now claims to be one of the top patent filers in the U.S. and owns approximately 27,000 patents.⁴

To finance these IP acquisitions, published reports indicate that IV has raised billions from companies such as Microsoft, Intel, Sony, Nokia, Apple, Google, eBay and others. The companies that invest in IV likely get some level of rights to their patents, but the details of such arrangements are unknown in the public domain. According to published reports, IV plans to group all acquired patents into clusters of similar technology and then license the patents to potential users or infringers of each technology cluster. The goal is to derive more value than would likely be attained from the licensing of any individual patent.⁵ - www.intellectualventures.com

RPX Corporation

RPX Corporation (“RPX”) refers to itself as the first defensive patent aggregator.⁶ RPX acquires patent rights and provides them as a defensive patent tool for an annual membership fee to reduce technology companies’ patent risks and costs created by NPEs. RPX has been aggressively building its member base with companies including: IBM, HP, LG Electronics, Nokia, Panasonic, Philips, Samsung, Seiko-Epson, Shoretel, Sony, Tivo and Vlingo. RPX annual membership fees range from \$35,000 to \$4.9 million depending on the member company’s operating income. As of August 2009, RPX had acquired \$97.6 million worth of patents; including 270+ U.S. granted patents and 70+ U.S. patent applications in mobile telecommunications, Internet search, RFID, and digital media distribution.⁷ - www.rpxcorp.com

Allied Security Trust

Allied Security Trust (“AST”) is a Delaware statutory trust, currently with 15 member companies headquartered in North America, Europe and Asia. AST provides opportunities to enhance companies’ freedom to sell products by sharing the cost of patent licenses. To date, AST has invested \$40 million in patent purchases over its 30 months of operations. Through such purchases, AST provides an opportunity for patent holders of all sizes to generate a return on their rights by selling patents to AST.⁸

AST claims to generate no profits and does not engage in patent assertions against other companies while maintaining a “catch-and-release” commitment that returns to the market in a timely manner the patents acquired on behalf of AST members after licenses are secured. AST boasts members including Sun Microsystems, Motorola, Hewlett-

Packard, Verizon Communications, Cisco Systems, Google and Ericsson. - www.alliedsecuritytrust.com

Open Invention Network

Open Invention Network (“OIN”) is an intellectual property company that was formed to promote Linux by using patents to create a collaborative environment. It promotes a positive, fertile ecosystem for Linux, which in turn drives innovation and choice in the global marketplace. This helps ensure the continuation of innovation that has benefited software vendors, customers, emerging markets and investors. In August 2009, OIN launched the Distinguished Inventors Patent Acquisition Program. The Distinguished Inventors Patent Acquisition program offers upfront cash consideration for accepted patents and support for further advances in the technology and onward patenting by the original inventor. Launched in 2005, OIN has considerable industry backing and has received investments from IBM, NEC, Novell, Philips, Red Hat and Sony. - www.openinventionnetwork.com

On September 8, 2009, OIN announced the acquisition of 22 Linux-focused patents that were marketed and sold by Microsoft. The patents were recently purchased by AST from Microsoft to ensure the patents did not fall into the hands of NPEs that could seek to assert the patents against Linux products. OIN subsequently acquired the Microsoft patents from AST.⁹

2. Licensing/Assertion Companies

Licensing/Assertion companies are typically NPEs that either acquire or license patent rights with the sole purpose of developing enforcement licensing and/or litigation programs against industry participants. These companies typically own many patent portfolios spread among various holding companies covering a diverse range of technologies. One typical approach to extracting value from industry participants is to file patent infringement lawsuits against multiple companies and try to settle with as many as possible under reasonable economic terms. The following section provides additional information on select Licensing/Assertion companies.

Acacia Research Corporation

Acacia Research Corporation’s (Nasdaq: ACRI) (“Acacia”) subsidiaries are in the business of acquiring, developing, licensing and enforcing patents. Acacia helps patent holders protect their patented inventions from unauthorized use and generate revenue from licensing. Their partners are primarily individual inventors and small companies with limited resources to deal with unauthorized users but include some large companies wanting to generate revenues from their patented technologies. - www.acaciaresearch.com

Acacia currently controls over 100 patent portfolios covering a variety of applications, which include advertising, energy/lighting, automotive, Internet/Ecommerce/business methods, communications, medical, computers/peripherals/printers, security, consumer electronics, semiconductor, database, software, digital media, and wireless. Acacia’s trailing 12 month revenue is approximately \$60 million and was generated from licensing

deals with companies such as Callaway Golf, Epson, General Electric, Harley Davidson, Hewlett Packard, IBM, Intel, Intuit, Mitsubishi, Motorola, Nokia, Orbitz, Rohm & Haas, Samsung, Sony, Symantec, Target, Travelocity, Wachovia, Wright Medical, and Xerox.¹⁰

Altitude Capital Partners

Altitude Capital Partners (“Altitude”) is a private investment firm focused on investing in businesses that own compelling intellectual property assets. Altitude has the flexibility to provide common equity, preferred stock, subordinated or secured debt which allows their portfolio companies to fund working capital for organic growth, acquisitions, strategic IP licensing/litigation activities or to facilitate distributions to existing shareholders. - www.altitudecp.com

As an example of Altitude’s business model, on February 16, 2007, Altitude and Visto Corporation, the leading independent provider of mobile email, announced the completion of its last round of financing with an additional \$35 million investment from Altitude.¹¹ On July 16, 2009, Research In Motion Limited (“RIM”) (Nasdaq: RIMM; TSX: RIM) and Visto announced that they have entered into a definitive agreement to settle all outstanding worldwide patent litigation between the companies. The key terms of the settlement involve RIM receiving a perpetual and fully-paid license on all Visto patents, a transfer of certain Visto intellectual property, a one-time payment by RIM of U.S. \$267.5 million and the parties executing full and final releases in respect of all outstanding worldwide litigation.¹²

Concert Technology Corporation

Concert Technology Corporation (“Concert”) is a privately-held company headquartered in Research Triangle Park, NC. Concert was formed in January 2006, by a group of employees from FlashPoint Technology, Inc. After successfully launching several products in the digital imaging space, the team from FlashPoint decided to leverage their experience and expertise in other areas of digital media. Concert conducts a wide range of research, development, acquisition and licensing services in the technologies and intellectual properties that underlie a wide range of markets: mobile media player ecosystems, home entertainment devices and networks, recommendation systems, location based services and social networking services. - <http://www.concerttechnology.com>

Rembrandt IP Management Group

Rembrandt IP Management Group specializes in enforcing patent rights against infringers. Rembrandt acquires the patent assets and shares a percentage of the revenues it earns from license agreements and litigation with the inventors whose intellectual property rights the firm enforces. Rembrandt IP has been actively enforcing patents in a variety of industries, including cable and entertainment, consumer electronics and eye care.¹³ - www.rembrandtip.com

MOSAID Technologies Inc.

MOSAID Technologies Inc. (TSX: MSD) (“MOSAID”) is focused on the licensing and development of semiconductor and communications technologies. MOSAID counts many of the world’s largest semiconductor companies among its licensees. A key element of MOSAID’s strategy is to expand its patent portfolio through licensing partnerships, patent acquisitions, and patents obtained on internally developed technology. - www.mosaid.com/

In February 2009, MOSAID acquired 300 patents from SercoNet Ltd. The patent portfolio related to wired and wireless communications patents that will enable MOSAID to expand its licensing activity into the enterprise and consumer communications, networking, and Internet access markets.¹⁴ On April 30, 2009, MOSAID announced that it granted the first license to its new portfolio of 300 communications patents, which it purchased in February 2009. The five-year term license was granted to a U.S.-based provider of Internet Protocol Private Branch Exchanges (IP-PBXs), Voice over IP (VoIP) telephones and related services. Financial details of the agreement are confidential.¹⁵

Wi-LAN Inc.

Founded in 1992, Wi-LAN Inc. (TSX: WIN) (“Wi-LAN”) is a recognized pioneer in the design, development and delivery of broadband wireless technologies. In 2006, Wi-LAN focused its business on the development and licensing of patented innovations. Wi-LAN has licensed its intellectual property to over 190 companies worldwide, including companies that manufacture or sell a wide range of communication and consumer electronics products including 3G cellular handsets, Wi-Fi-enabled laptops, Wi-Fi/DSL routers, xDSL infrastructure equipment, WiMAX base stations, Bluetooth-enabled devices and digital televisions. Wi-LAN has a large and growing portfolio of more than 670 issued or pending patents. - www.wi-lan.com

On July 23, 2009, Wi-LAN announced that they acquired a portfolio of over 125 issued and pending wireless patents from NextWave Broadband, Inc., an early developer of mobile wireless broadband products.¹⁶ Additionally, in the third quarter alone, Wi-LAN signed 15 agreements including 11 wireless, 3 V-Chip and 1 wireline license.¹⁷

3. Operating (Product/Service) Companies

For operating companies, the intent of a patent purchase may be either offensive or defensive. The value of the purchase could be based on either how much the operating company could extract in licensing revenues from the marketplace or how much could be saved from a potential licensing or cross-licensing deal.

Operating companies also have many strategic reasons for acquiring patents. First, companies can acquire/enhance competitive advantages by creating barriers to entry for new market players, increase/maintain market share by excluding competitors via injunction, and increase firm value and leverage for business partnerships, customer relationships and potential acquisitions. Additionally, the operating company could acquire patents for freedom-to-operate concerns or to eliminate ongoing royalty payments from in-licensed technologies.

Recognizing the value of acquiring patents, several large high-tech operating companies have created their own dedicated patent acquisition groups. However, our experience has shown that operating companies are less frequent purchasers of patents, at least directly. Many operating companies seem to work through various aggregators of which they are members (e.g., IV, RPX, AST, OIN, etc.) to have the aggregator acquire the patents of interest for them.

In addition to acquiring patents, many companies have been historically known for heavily investing in out-licensing of internally developed patents, including:

- Qualcomm
- IBM
- Texas Instruments
- InterDigital

b. Who are the Sellers?

Patent holders are a diverse group and include public and private companies, individual inventors, venture capital and private equity firms, universities, government agencies, and bankruptcy trustees. Every patent holder may have different reasons for selling or licensing patent assets. In recent years, patent sales have offered a different route to monetize these assets compared to enforcement licensing, which many patent owners do not feel comfortable pursuing. Companies, for example, may wish to boost profitability, reduce expenses and/or raise additional non-dilutive capital. Individual inventors, on the other hand, may simply be looking for an exit from an otherwise illiquid asset that may have market value. To better illustrate the range of sellers, the following section includes cases studies from some of IPinvestments Group's previous transactions.

IPinvestments Group Case Studies

- *Publicly-traded, international company – VoIP Patent Portfolio*

IPI was retained by a publicly-traded Israeli telecommunications company to market a portion of their patents related to voice-over-IP technologies (VocalTec Communications Ltd.). IPI marketed the patents to operating companies, patent aggregators and licensing/assertion companies. Ultimately, the patents were very well received by the marketplace and IPI conducted a real-time auction for these assets. A private company paid \$12.5 million for these assets. IPI assisted this seller with a second patent portfolio sale transaction that generated an additional \$7 million.

This engagement had many unique aspects that IPI had to effectively manage. First, our client was a publicly-traded company that had to manage public relations concerns regarding the marketing of these assets and manage the financial implications of maximizing shareholder value by considering the impact of potential recurring versus non-recurring revenue streams. Second, our client received funding from Israel's Office of the Chief Scientist ("OCS") for the development of many of these technologies. If Israeli companies accept funds from the OCS, and if the ownership of technology is ultimately transferred out

of Israel, then that company may be required to repay much of the original amount received from the OCS. This was an important concern for our client because the repayment of the OCS funds could have greatly reduced our client's net proceeds.

- *Publicly-traded Company Divesting Non-core Assets Resulting from an Acquisition – Encrypted Data Transmission and Memory Card Technologies Patent Portfolio*

IPI was retained by a publicly-traded company to market a non-core patent portfolio that was acquired as part of a previous acquisition. IPI marketed the patents to operating companies, patent aggregators and licensing/assertion companies. The encrypted data transmission and memory card technologies patent portfolio was ultimately sold to a private firm for an undisclosed amount.

The primary challenge that IPI and our client had to manage was the public relations concerns regarding the marketing and ultimate sale of these assets. Specifically, our client wanted a transaction where they would relinquish all control and ownership of the assets and not be tied to any future licensing efforts by the acquirer. IPI was able to successfully negotiate a transaction that was agreeable to all parties.

- *Individual Inventor – Web Services Patent Portfolio*

IPI was retained by an individual inventor of web services patents. The inventor previously tried to license the patents, but was unsuccessful. IPI marketed the patents for sale to operating companies, patent aggregators and licensing/assertion companies. Ultimately, the patents were very well received by the marketplace and IPI successfully conducted a real-time auction for these assets.

This engagement had many unique aspects that IPI had to effectively manage. First, the format for selling these assets consisted of a real-time auction conducted via email. Second, during closing, the seller had to unexpectedly resolve many corporate and tax issues before the transaction could be completed.

- *Small Private Company – Encryption and Data Security Patent Portfolio*

IPI was retained by a small technology company to market a patent portfolio related to encryption and data security technologies. The seller ultimately received numerous offers ranging from all cash to a hybrid of cash and sharing of licensing revenue. The seller ultimately partnered with a patent enforcement group who has been actively enforcing the patent rights.

- *Venture Capital Company – Voice Recognition Patent*

A venture capital company hired IPI to market a voice recognition patent that was owned by a failed portfolio company. IPI marketed the patents to operating companies, patent aggregators and licensing/assertion companies. Ultimately, a private company acquired the patent. The venture capital firm was able to close that fund and generate a return on an otherwise written-off asset.

c. Who are the Intermediaries?

Over the last few years, many organizations have emerged to advise clients on evaluating, marketing and commercializing patents. It appears the average firm in the industry is relatively small, with less than 10 employees. The members of these firms generally have professional backgrounds in business, law and engineering and come from law firms, corporations, consulting firms and/or investment banking firms. These firms typically operate out of a single office and are generally based in the U.S. Many of these firms offer buy- and sell-side services as well as valuation, strategic consulting and patent landscape mapping services. There are four typical approaches that companies follow to market patents, including: 1) private brokerage, 2) public auctions, 3) online exchanges, and 4) direct contact.

Why is considering hiring an intermediary skilled in executing patent sale transactions important? Bottom line: to increase your chances of success. First, intermediaries should have a far-reaching list of contacts that include high-level decision-makers who understand intellectual property transactions. Second, intermediaries should be able to present the required information that is inherently complex in a simple fashion. Third, intermediaries should manage and reduce the risk of developing an ill-conceived marketing strategy that could result in the seller defending against a declaratory judgment. Finally, the ultimate role of any intermediary is to generate enough interest in a patent portfolio such that the seller can have leverage and evaluate multiple offers of possibly different structures to extract maximum value for their patent portfolios.

As with the differences in intermediary types, the approach for marketing patents differs considerably by firm. At a minimum, a list of the patents and a brief description of the opportunity is provided. However, as the market has developed, intermediaries now must develop a much more detailed and convincing value proposition to gain the attention of potential buyers. The obvious question that follows is: How do you show a convincing value proposition to potential patent buyers? Sellers must be aware of how buyers measure value.

Private Brokers

Patent transactions are typically complex and require confidentiality between parties. Privately brokered transactions generally allow sufficient time for the buyer to do proper in-depth due diligence and include varying levels of confidentiality. Further, the seller also has more control over who will be allowed to bid on the patents; keeping the sale from becoming public knowledge and preventing direct competitors from bidding. Private brokerage firms are typically compensated by commission based on the total dollar value of a transaction, and some firms may charge a retainer to be credited against future proceeds.

Typically, all potential buyers are allowed a fixed due diligence period to review the opportunity, request additional information and schedule conference calls with the seller and their technical and/or legal teams. The marketing process is typically concluded by conducting a sale process which can include a live, real-time auction, a sealed-bid auction or direct negotiations between parties. The selection of any of these methods is driven by the likelihood of extracting the most value from potentially interested parties. Some examples of patent brokers include IPinvestments Group, ThinkFire, IPotential, IP Value, Pluritas, and Inflexion Point, among others.

Public Auctions

Public auctions, such as those presented by ICAP Ocean Tomo, provide a means for facilitating the open and public exchange of intellectual property. From a sellers' point of view, having a large number of qualified buyers bidding at the same time should allow them to get a good price for their patent. Further, this model is believed to bring transparency to the IP marketplace. Public auction firms are typically compensated from both the seller (a commission-based listing fee plus a fixed listing fee) and the buyer (also a commission fee based on the purchase price). In this format, the firm hosting the auction may publish a catalogue of the different properties available for sale along with a brief description of the subject assets. Behind the scenes, the auction hosts try to get participants to attend the auction and facilitate due diligence requests from potential buyers. Further, bidders can be kept anonymous through a variety of methods throughout the due diligence and auction phases.

Online Exchanges

Online exchanges are repositories of patent and/or technology offerings posted by individuals, companies, universities, etc. Potential buyers can typically search through listings, review offering information and connect with the seller. The compensation for the online exchange vendor ranges from a subscription fee to access the website to a commission structure based on the value of the transaction. Companies that offer online patent and technology exchanges include yet2.com, Tynax, IP Harbor, and NextTechs. Additionally, operating companies are developing new channels through which to market their patents and technology for sale. For example, HP is offering patents for sale directly through their website¹⁸, and operating companies, universities and government institutions such as AT&T, IBM, Lucent, NASA, and MIT are offering patents for licensing through websites such as Delphion (appears to be facilitated by yet2.com).¹⁹

The online exchange process appears to be the most passive of the approaches to marketing patents. Once a seller posts a patent acquisition opportunity, the listing is syndicated to targeted buyers and brokers/agents representing buyers. If interest from a party arises, details of the patents and associated assets for sale are provided to buyers under any necessary confidentiality agreements. Following this question and answer process, the buyer may make a tentative offer. If there are several interested buyers, a bidding process may take place.

Direct Contact

A final approach involves potential buyers and/or sellers seeking the other party directly and negotiating a potential transaction. This process of directly contacting a buyer/seller can be done by the interested party individually, or the interested party could hire an intermediary to contact

the buyer/seller directly. If an intermediary is used, the buyer can remain anonymous throughout most of the process.

IV. Deal Points from Buyer and Seller Perspectives

a. Overview of Value Points for Both Parties

Once a potential buyer determines that there is even a slight degree of interest in a patent portfolio, the first question is how much will it cost? Simply put, the value is in the eye of the beholder. In the context of patents, the value is highly dependent on who owns it and how they are using it, or intend to use it. The emphasis on who and how is a different dynamic than most valuation exercises that rely on comparable transactions. Patents, by definition, are unique, and valuation models used for comparable assets are not easily adapted to patents.

Patent valuation practitioners must be able to evaluate patents from technical, legal and financial perspectives in order to determine true value. In today's patent sale and/or enforcement licensing market, the value of a patent is primarily driven by the quality of that patent and potential infringement of the patent. Sellers and intermediaries must evaluate validity, claims scope, ease of infringement detection and clear title through detailed legal and technical analysis. If these factors are not reasonably shown, the likelihood of completing a successful transaction is decreased. Alternatively, if a patent owner wants to find a business partner to develop a product and license the patent strategically, then the patent owner must develop a compelling business case to support the required expenditures on research, development, and marketing, among other costs.

The quality of patents, in terms of patent sale or licensing value, can be viewed on a spectrum ranging from high quality patents on the top end to lower quality patents on the bottom end. Characteristics of patents on the top end of the spectrum include identifiable current infringement with significant economic impact while with no serious validity, encumbrance or title issues. Patents on the lower end of the spectrum have value, but these patents may have chain-of-title problems, do not relate to technologies that are of great current market value, or may have a speculative case for infringement. The market for these patents once existed, but is now greatly depressed. The mid-market patents, those with potential infringement or some validity issues, still may sell, but at a significant price discount.

Outside of the formalities of closing any type of business transaction, patent transactions have additional layers of complexity. The fortunate part is that both the buyer and seller are motivated to execute a transaction so that both parties can realize the value from the patent assets as soon as possible. The following section outlines important considerations from the perspective of both the seller and the buyer.

b. Seller

The decision for a patent owner to sell their patent assets is complex and involves many dimensions. Below are lists of factors a patent owner should consider before deciding to offer a particular patent for sale.

- Deal Structure
 - Cash only
 - Cash + licensing revenue sharing
 - Licensing revenue sharing only

As the patent monetization landscape has evolved, the deal structures available to sellers have also changed. Many sellers prefer to structure a deal such that the full payment is made in cash. This structure is typical if the buyer is an operating company or a patent aggregator. However, if the buyer is a licensing/assertion company, then the transaction could include a licensing revenue sharing component (“back end”) or cash *plus* back end. The back end component would typically be structured such that the seller receives between 10% and 50% of licensing proceeds (either gross or net, depending on the agreement). The licensing sharing transaction may generate significant proceeds; however, this type of transaction does contain the typical risks associated with enforcement licensing. The seller must consider what type of transaction structure would be ideal.

- Type of Buyer
 - Patent Aggregator
 - Licensing/Assertion companies
 - Operating companies

The seller must determine what type(s) of buyers should be excluded from the offering or what types of buyers would be the best partner. Outside of economics, this decision may ultimately be based on the strategic concerns of the seller. For example, the seller may be an operating company and may not want competitors to have access to important patents. Further, operating companies may not want to sell to a licensing/assertion company because of potential backlash from customers and competitors that may ultimately be sued for patent infringement. In this case, even though an NPE would own the patent and be bringing the lawsuit, assignment records would show the former owner (the operating company) had once owned the patent.

- Risk Tolerance
 - Potential declaratory judgment
 - How much time is available before the cash is needed
 - Public Perception
 - Which patents are being offered?
 - Are competitors being offered the patents?
 - How public should marketing be?

Offering patents for sale can bring some level of risk to the patent owner. This risk is manageable, but still exists. One type of risk in offering patents for sale is the risk of becoming a

potential target for a declaratory judgment filing, especially in light of several court rulings over the past few years. The seller and their intermediary must evaluate the risk of whether or not a potential target will feel threatened by the communication regarding the patent offering. If the potential target does feel threatened and wants to try and protect venue, then the potential target may file a declaratory judgment action.

In addition to managing the risk of declaratory judgment, sellers must also decide how quickly they need the proceeds from a potential transaction, if successful. This decision may help sellers determine the transaction structure (i.e., cash and/or back end). If the seller is a struggling company or an individual looking for a liquidity event, then the seller may structure a deal with more upfront cash. If the seller has financial flexibility and few strategic or competitive concerns, then the seller may be comfortable selling to a licensing/assertion company and forego upfront cash for the chance of significant upside from licensing revenues.

Finally, as referenced earlier, sellers may have strategic and/or competitive concerns to consider. First, will the seller have any customer-relationship concerns from offering key patents to the market? Further, will competitors be offered the patents? These are questions that the seller must answer before beginning the marketing process.

The following section includes examples of challenges that sellers will need to successfully resolve or avoid during either the due diligence process or the closing process.

Relevant Approving Parties

Sellers should always have the pre-approval of stakeholders before marketing an asset for sale. This sounds obvious, but many times, the full range of stakeholders is not clearly identified before the marketing process begins. In the case of an individual inventor who is the sole stakeholder, this process is simple. However, in the context of a company, either still operating or not, this process can be much more complex.

If an operating company is the seller, many different levels of approvals may need to be received before a transaction can ultimately be completed. First, relevant management must be consulted including representatives from the legal, technical and business units to approve that the patent can actually be sold. Further, the finance department must determine the required pricing of such transaction. Once the management agrees on all of these factors, investor groups or the board of directors may also have to approve a potential transaction.

If the patents are owned by a company that failed, the true seller must be determined. In other words, who is making the ultimate decisions? In this case, the decision-making process may be made by an investor group that holds the rights to any remaining assets, a board of directors or ultimately a bankruptcy court or trustee.

“Substantially all of the assets”

For many sellers, either individual inventors or small companies, the patent assets represent a large portion of that entity’s assets. As a result, those sellers may have to provide evidence that the patent sale represents “substantially all of the assets” of the entity and as a result, potentially gain shareholder approval (in the case of a company) and provide information to the acquirer

regarding capital structure and other assets held by an entity. If the seller is a company that ceased to exist or is controlled by an investor group, gaining the required approvals for such a transaction may be difficult due to lost contact with former employees, advisors or early investors.

Past Tax or Other Corporate Obligations

If a seller is, or was, an operating company, the seller may have to deal with past tax liabilities, corporate standing or other governance concerns before a patent transaction can be completed. While these challenges are not typically insurmountable, they are time consuming and require quick action to satisfy buyer demands. From the seller's perspective, a new attorney or accountant may have to be consulted to resolve any remaining corporate concerns.

International Transactions

Transactions may be more complex if the seller is an international entity due to country specific regulation and taxation. For example, Israeli companies can request government funding for research from the OCS. If the result of that research (e.g., patent rights) is ultimately sold to a buyer outside of Israel, then the seller may have to repay a portion of those research funds to the OCS. Additionally, foreign governments may play a role in the transaction approval process before a deal can be completed. These issues and ramifications should be clearly understood by the seller and the intermediary from the outset.

c. Buyer

As discussed in previous sections, the quality of a patent asset must be above-average in order for it to receive significant attention. From a buyer's perspective, the list below outlines many of the typical attributes that patent buyers must consider before spending considerable efforts to potentially acquire the subject asset.

- Potential infringement
 - Who is potentially infringing?
 - Can the claims be clearly and convincingly mapped to products currently on the market?
 - How large are the companies that are potentially infringing? Revenue? Cash?
 - What is the market concentration of the potentially infringing companies (e.g., is there a small subset of large infringers, or is the market more dispersed with many medium-sized companies)?
 - How do these companies fit in the overall market? End users? Critical technology / component providers?
 - What is the pricing model for the potentially infringing product?
 - Is the market for this potentially infringing product established, or is this an early-stage market?
 - What is the prevailing royalty rate for similar technology?
 - How litigious are the companies that are potentially infringing? In the market as a whole?
 - What is the next best technology alternative?

- Patent Files
 - How strong are the claims?
 - Have the patents ever been abandoned (either intentionally or unintentionally) and then revived?
 - Is the chain of title clear of any encumbrances?
 - Are there any existing or potential security interests, or secured or unsecured claims of ownership, or potential claims of ownership, on the patents held by any third party including a creditor or lien-holder?
 - Does any government or standards-setting body have any claim or right in the patent(s)?
 - Is there any other information, including any studies, reports or opinions, including prior art searches, that may relate to the ownership, validity, enforceability, infringement or value of any of the patents?
 - Is the inventor(s) available for consultation?
- Patent Data
 - Priority / filing dates?
 - What is the remaining life of the patents?
 - Number of claims? Independent? Dependent?
 - Number of forward references?
 - Patent family?
 - International patent protection? Where?
- Marketing History
 - Have any of the patents been offered for sale or license before?
 - Have any of the patents been licensed before? If so,
 - Any exclusive licenses?
 - Any that provides the licensee with the right to sue for any past, present, or future infringement?
 - Any field of use limitations?
 - Any royalty or other payments associated with the encumbrance?
 - Any limitations on requirements for transfer or assignment?

Based on past experience, the following points are a few examples of problem areas from a buyer's perspective.

Clean Chain of Title

If the acquirer identifies errors or inconsistencies in the chain of title (e.g., assignment records), then the acquirer will require that the necessary changes be submitted to the USPTO or other regulatory body.

Inventor Availability and Involvement

As buyers are now looking to extract value from patents through licensing and enforcement more than ever, some buyers will want to interview or ultimately hire, through a consulting agreement, the original inventor(s). In an ideal situation, the original inventor may be the seller or be employed by the seller. However, this is not always the case. Oftentimes, patents are acquired by multiple companies throughout the life of the patents or the inventor(s) simply changes jobs. If the relationship between the inventor and the seller is severed, this may be problematic in at least

two ways: 1) if assignment papers need to be revised or completed and 2) if the acquirer wants the inventor to join the team as an advisor during licensing or litigation efforts. If the seller requires the inventor for either of these reasons, and the inventor is uncooperative, then neither the buyer nor the seller may have enough leverage to quickly resolve these issues.

V. Historical Trends and Future Direction of the Patent Monetization Landscape

Over the last 5+ years, the patent sale market was very active with a flood of patent sales. Due to the unprecedented interest in acquiring patents, the value and frequency of such transactions grew significantly. 2009 has marked a new direction in the patent monetization landscape as larger buyers are slowing their acquisitions and more NPEs are stepping in to acquire and license patents to operating companies.

The nature of these transactions are typically confidential; however, a limited amount of data has been collected for transactions from 2002 – 2008. The table below was prepared by ThinkFire.²⁰

| Factor | Overall |
|--|----------------|
| Years covered | 2002-2008 |
| Number of Transactions | 309 |
| Total Gross Deal Proceeds | \$573m |
| Maximum Cost / U.S. Issued and worldwide | \$12m |
| Mean Cost / U.S. Issued and worldwide | \$383k |
| Median Cost / U.S. Issued and worldwide | \$110,000 |

Source: ThinkFire patent brokerage transaction database summary

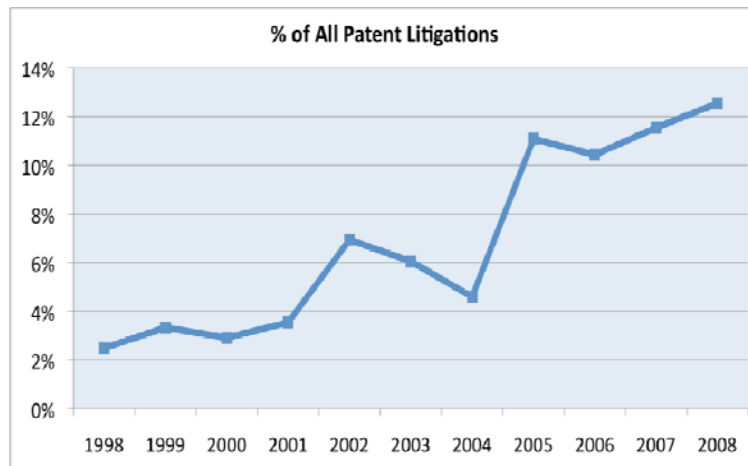
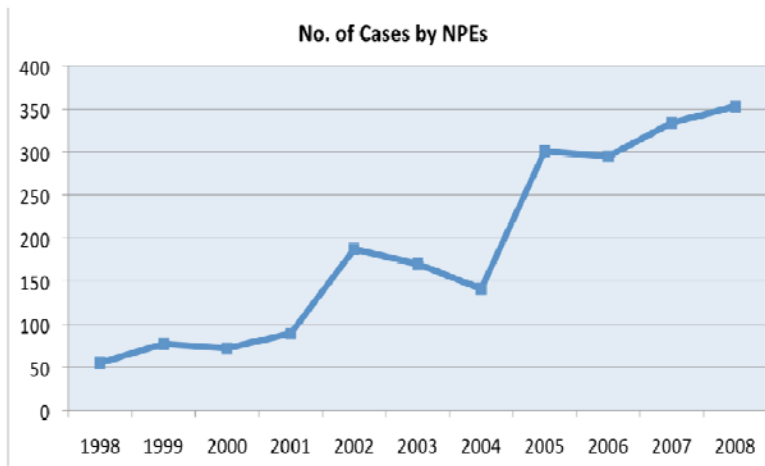
Throughout 2009, and likely into the near future, the frequency of patent sale transactions will be depressed, primarily because buyers are not actively acquiring “fringe” patents (e.g., those with speculative examples of infringement, potential problems with chain-of-title and validity, etc.). Buyers of all types have expressed continued interest in acquiring high-quality patents.

To analyze another side of the patent monetization marketplace – the NPEs – reference will be made to a series of studies performed by the firm PatentFreedom. As of January 1, 2009, PatentFreedom has identified and profiled over 220 distinct NPEs (a number which continues to increase). Since 1985, these NPEs have been involved in litigation with over 3,500 different operating companies in over 2,200 distinct actions, and the pace of activity is clearly increasing. Nearly 75% of the suits between these NPEs and operating companies have been filed since 2003.

Further, according to research by PatentFreedom, the number of lawsuits filed by NPEs, both in absolute terms and as a percent of all litigation, has been increasing over the past few years. For the first half of 2009, while overall patent litigation activity had actually slowed, the incidence of NPE cases was higher. According to RPX, “[t]here were only 1,318 patent cases at the halfway point of 2009, but of these, 224 were NPE cases (a 25% increase in activity). Fully 17% of the

U.S. patent cases filed in the first six months this year were NPE-driven.”²¹ What is driving the increase in patent litigation by NPEs? This growth is due, in part, to the relatively low cost of acquiring patent assets and the large damages that have been awarded to a few NPEs (NTP, RIM dispute). The charts below summarize the number of patent lawsuits involving NPEs throughout the last 10 years.²²

Patent Lawsuits Involving NPEs Over Time



Source: PatentFreedom © 2009 Data captured as of January 1, 2009

It is likely that the names of the most litigious NPEs are not recognized by most. In order to shed light on many of these firms, PatentFreedom compiled a list of the top 10 most litigious NPEs, summarized in the table below.

Most Litigious NPEs

| NPE Name | Total Cases | % since 2003 |
|--|-------------|--------------|
| Acacia Technologies | 319 | 78% |
| Rates Technology Inc. | 134 | 31% |
| Millennium LP | 101 | 91% |
| Cygnus Telecommunications Technology LLC | 69 | 45% |
| General Patent Corp. International | 66 | 55% |
| Plutus IP | 65 | 100% |
| Papst Licensing GmbH | 60 | 53% |
| F&G Research Inc. | 56 | 91% |
| Catch Curve Inc. | 54 | 69% |
| Ronald A Katz Technology Licensing | 54 | 89% |

Source: PatentFreedom © 2009 Data captured as of January 1, 2009

In order to generate returns, the NPEs must acquire patent assets to enforce. The table below ranks NPEs by the number of patent holdings known and identified by PatentFreedom.²³

NPEs with Largest Patent Holdings

| Entity | Patent Families | Litigations |
|--|-----------------|-------------|
| Intellectual Ventures | 10k-12k (Est) | - |
| InterDigital Inc. | 2,633 | 39 |
| Wisconsin Alumni Research Foundation (WARF) | 1,806 | 28 |
| Rambus | 850 | 11 |
| Tessera Technologies Inc. | 816 | 20 |
| Jerome H Lemelson | 513 | 28 |
| CSIRO | 511 | 12 |
| Acacia Technologies | 493 | 319 |
| Mosaid Technologies Inc. | 389 | 9 |
| Scenera Research LLC | 324 | 18 |
| Papst Licensing GmbH | 272 | 60 |
| Altitude Capital Partners | 261 | 6 |
| Cheetah Omni LLC | 201 | 4 |
| Trontech Licensing Inc. | 191 | 31 |
| St. Clair Intellectual Property Consultants Inc. | 177 | 13 |
| Innovation Management Sciences LLC | 175 | 0 |
| Rembrandt IP Management | 146 | 26 |
| Washington Research Foundation | 124 | 2 |

| Entity | Patent Families | Litigations |
|-------------------------------------|-----------------|-------------|
| AmberWave Systems Corp. | 121 | 9 |
| Wi-Lan | 118 | 12 |
| Alliacense | 118 | 25 |
| Technology Patents & Licensing Inc. | 103 | 1 |
| WIAV Solutions LLC | 98 | 6 |
| Autocell Laboratories Inc. | 98 | 1 |
| TM Patents LP | 95 | 8 |

Source: PatentFreedom © 2009. Data Captured as of January 1, 2009

The table below shows many large operating companies that have been relentlessly pursued by NPEs.

| No. | Company Name | 2004 | 2005 | 2006 | 2007 | 2008 | Total |
|-----|---------------------|------|------|------|------|------|-------|
| 1 | Samsung | 5 | 3 | 8 | 13 | 9 | 38 |
| 2 | Microsoft | 3 | 5 | 6 | 11 | 9 | 34 |
| 2 | Motorola | 1 | 6 | 4 | 12 | 11 | 34 |
| 4 | HP | 6 | 3 | 4 | 9 | 10 | 32 |
| 5 | AT&T | 2 | 2 | 6 | 14 | 6 | 30 |
| 6 | Sony | 3 | 7 | 4 | 8 | 7 | 29 |
| 6 | LG | - | 7 | 3 | 11 | 8 | 29 |
| 8 | Apple | 4 | 3 | 3 | 11 | 7 | 28 |
| 8 | Dell | 4 | 3 | 7 | 9 | 5 | 28 |
| 8 | Nokia | 2 | 7 | 3 | 9 | 7 | 28 |
| 11 | Matsushita Electric | 5 | 8 | 4 | 6 | 4 | 27 |
| 12 | Toshiba | 4 | 5 | 4 | 9 | 4 | 26 |
| 13 | Time Warner | - | 6 | 6 | 8 | 5 | 25 |
| 14 | Verizon | 1 | 3 | 3 | 13 | 4 | 24 |
| 15 | Sprint Nextel | 2 | 2 | 3 | 11 | 4 | 22 |
| 16 | Palm | 1 | 3 | 3 | 5 | 9 | 21 |
| 17 | Cisco | - | 3 | - | 12 | 5 | 20 |
| 17 | Intel | 1 | 9 | 2 | 1 | 7 | 20 |
| 17 | T-Mobile | - | 5 | 2 | 11 | 2 | 20 |
| 20 | Kyocera | 3 | 6 | 3 | 4 | 3 | 19 |

Source: PatentFreedom © 2009 Data captured as of January 1, 2009

Future Direction of the Patent Monetization Marketplace

The patent sale marketplace has been depressed since the beginning of 2009. While one factor is the overall macroeconomic condition, other factors include the strategic direction of key buyers and recent court rulings. Buyers now, more than ever, must clearly understand the enforcement licensing revenue potential. Additionally, strategic and opportunistic buyers are sitting on the sidelines. As a result of these factors, the patent transaction market appears to be shifting from an open exchange between buyers and sellers to a more litigious area as the buyers decrease their spending.

Important dynamics for the future of the patent monetization marketplace include:

- **Continued Push of Patent Infringement Lawsuits by NPEs.** The upward trends in NPE-based licensing and litigation will likely continue. For example, Peter Zura, the author of the 271 Patent Blog, detailed in September 2009 the rumors associated with how IV handles its patent licensing efforts. As Zura explains: “IV has allegedly started to ‘outsource’ their patent litigation.”²⁴ Consistent with Zura’s findings, law.com published on September 1, 2009 an interview with Peter Detkin of IV stating that his firm has begun to sell more patents. He said that a dozen deals have been done and most have a “back end,” meaning that IV shares in any money the new owner makes through licensing or litigation. Further, Detkin insisted that after a sale, IV maintains no control over the patents.²⁵
- **Success of Defensive Patent Aggregation.** The defensive patent aggregation business model will continue to be developed and tested by groups such as RPX and AST. One metric that member companies will analyze is whether or not the services actually reduce the risk and expense associated with patent infringement lawsuits.
- **New IP-based Business Models Emerging.** Firms are continuing to innovate as patents become a more understood financial asset. For example, IV is offering new financing programs including IP Financing Bridge™, IP-to-EPST™, and IP Recursive Bid™.²⁶ Additionally, IP-backed securitization continues (e.g., Morgan Stanley recently unveiled \$250m securitization with Vertex Pharmaceuticals).²⁷
- **Shake-up in Intermediary Markets.** As the demand for patent acquisitions has dipped throughout 2009, the landscape of intermediaries is changing as well. For example, ICAP acquired the patent transactions division of Ocean Tomo, including Ocean Tomo’s live auction operations for \$10m in a cash and stock deal.²⁸ Will this create a trend of consolidation?
- **Continued Legal and Regulatory Pressures.** The 111th Congress is once again considering new legislation – The Patent Reform Act of 2009 – that closely resembles previously proposed legislation including the Patent Reform Act of 2007 and the Patent Reform Act of 2005. The Patent Reform Act of 2009 represents the third consecutive congressional session to attempt a dramatic overhaul of the U.S. patent system.²⁹

VI. About the Authors

MICHAEL W. McLAUGHLIN is a Principal and Founder of IPinvestments Group. He has significant expertise in negotiating IP transactions and licensing arrangements, IP valuation, and strategic IP consulting services. He spends the vast majority of his professional time negotiating patent transactions, valuing patents for sale and/or acquisition, and helping companies implement patent portfolio licensing programs. Mr. McLaughlin graduated from Florida State University with a Bachelor of Science Degree in Finance. Mr. McLaughlin is a member of the Intellectual Property Owners Association (IPO), serving as a member of the IP Licensing Committee. In addition, Mr. McLaughlin is a member of the Licensing Executives Society (LES), the Technology Association of Georgia (TAG) and is currently featured in the IAM 250 as a “World’s Leading IP Strategist”. Mr. McLaughlin previously worked as a Managing Director of IPAC, LLC (Intellectual Property Asset Corporation) and InteCap, Inc. (now part of CRA International).

GRANT E. MOSS is a Director at IPinvestments Group. With substantial experience in managing patent acquisitions and developing and implementing licensing programs, Mr. Moss is highly skilled at evaluating and extracting value from intellectual property. In addition to transaction-related engagements, Mr. Moss has conducted numerous valuations of royalty streams from licensed intellectual property for potential acquisitions, developed reasonable royalty rate analyses, and provided litigation-related consulting services. Mr. Moss graduated from Georgia State University with a Bachelor of Science Degree in Finance and is currently pursuing an MBA at Emory University - Goizueta Business School. He was a founding member of the Emerging Leaders Network (part of Georgia BIO) and a member of the Licensing Executives Society (LES) and the Technology Association of Georgia (TAG). Mr. Moss previously worked as an Associate at IPAC, LLC, and worked with InteCap, Inc. (now part of CRA International) and Sedona Corporation.

¹ http://www.economist.com/businessfinance/displaystory.cfm?story_id=14416641

² http://www.rpxcorp.com/svc_problem.html

³ <http://avancept.com/iv-report.html>

⁴ http://www.economist.com/businessfinance/displaystory.cfm?story_id=14416641

⁵ <http://avancept.com/iv-report.html>

⁶ <http://rpxcorp.com/facts.html>

⁷ <http://www.rpxcorp.com/>

⁸ http://www.openinventionnetwork.com/press_release09_08_09.php

⁹ http://www.openinventionnetwork.com/press_release09_08_09.php

¹⁰ <http://acaciatechnologies.com/>

¹¹ <http://www.altitudecp.com/pdf/Visto%20Corporation%20Press%20Release%20Final.pdf>

¹² http://www.visto.com/corp/int_news.php?id=pr_090716

¹³ <http://dockets.justia.com/search?q=Rembrandt+Technologies+LP>

¹⁴ <http://www.mosaid.com/corporate/news-events/releases-2009/090218.php>

¹⁵ <http://www.mosaid.com/corporate/news-events/releases-2009/090430.php>

¹⁶ <http://www.wi-lan.com/company/News/News-Details/2009/WiLANAcquiresWirelessTechnologyPortfolio1120939/default.aspx>

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- 26 <http://www.gathering2.com/>
- 27 <http://www.structuredfinancenews.com/news/-195429-1.html>
- 28 <http://www.reuters.com/article/pressRelease/idUS190104+16-Jun-2009+BW20090616>
- 29 http://en.wikipedia.org/wiki/Patent_Reform_Act_of_2009