



**The 6<sup>th</sup> Annual IP Dealmakers Forum**  
**November 12-14, 2019 at Apella in NYC**  
**Post Event Report**

**Introduction**

The IP Dealmakers Forum launched in 2014 to connect money and IP and bring the two together. At that time the industry went through a boom including live patent actions, lawsuits and assertions. Since then, the industry has matured. Today we are cautiously optimistic about intellectual property. There are more tools in the tool box, and a sharper vision about what monetization of patents and other assets is all about. In just five years the event has grown – this year there will be 300 one-to-one meetings and deals are getting done at the event.

**Chairperson Fred Fabricant's Opening Remarks**

Today, to get deals done requires certainty and predictability. Patent portfolios that once sold for millions are selling for much less. Things have changed for the better but not at the point where portfolios are selling for millions. There are large companies willing to sell portfolios. There are funds willing to back financing for them. I see the current market as a buying opportunity. People are taking advantage of it by buying large portfolios of patents and trying to create value in their monetization programs.

Overall it has become difficult to invest in the space. Since 2012, it has become much tougher to predict. Although there are fewer institutions, the number of cancellations is dramatically down, and the chances of a stay have been reduced. So, the key factors that held the value of patent monetization down has improved and it continues to do so. There's still risk in the market that is inherent to intellectual property rights. There has been an improvement in 101 decisions, 101 risk has been significantly reduced. The number of cases coming out of the federal circuit courts that have allowed patent to survive decisions has improved.

If you look at the overall playing fields, with challenges in the patent office down, with Alice challenges down, it has become an area that more people are willing to invest in. Litigation finance is driving deals, patent owners are mindful of the availability of financing from funders, the industry is more predictable, and we can assess risk with greater certainty. Compared with 2014-2015 there is much more capital available too. So, the state of the nation is good. People want to enter the intellectual property space, invest in the market, and put capital to work.



## **State of Affairs: The Global IP Market**

To lead off, the panel covered a wide range of areas such as the state of the secondary deals market, how participants have become more adept at managing IP and whether the market has grown more friendly.

Alan Lo, deputy GC at Facebook said he believed that it's a good time to be a licensee, since patent rights weren't very strong. He said that deals can get done in the current environment, before major policy changes take hold.

Katharine Wolanyk, managing director at Burford Capital said that she views IP as a high-risk investment. It may not become a great environment any time soon, she said – though laws have changed and 101 cases are easier, relative to other investment opportunities, patent cases are very difficult.

On the bright side, last year saw higher deal flow for patents. Roughly 1000 deals a year hit the market; \$300 million was transacted last year through brokers, with software dominating, even after Alice. Software remains a "lottery ticket," said Micky Minhas, Associate GC, Patent Strategy at Microsoft. Greg Kisor, Global head of fund management at Intellectual Ventures, said his firm sold a large portion of patents; often only a fraction of the patents are driving a deal so you can sell the rest, he said.

NPEs continue to buy a large number of the broker deals. NPE buying hasn't slowed. Litigation threats continue to rise for sold and unsold patents. Today, every patent is transacting at about \$280,000. This is an average over all kinds of technologies. It's the highest number since 2014; a 58% increase over 2018. Kisor emphasized that buyers are focused on quality over quantity in patent sales.

Other things that are happening in the space:

- Today much of the innovation is on the defense side, compared with 10 years ago when it was on the aggregator side. This is a reaction to the convergence of the NPE model. Operating companies aren't just selling to NPEs; they are selling to other companies.
- Companies are busy trying to monetize their patent portfolios; they need to maximize the patent assts they have, said Kisor.

Lo said IP is Facebook's top concern. It's important to right size our portfolio, he said. The company has grown in revenue and in diversifying its patent portfolio. In 2012 it was sued by Yahoo, so the company acquired patents from AOL through Microsoft. Today the company has 16000 assets but needs to make sure it has the portfolio that fits the purpose they have in mind for it.



Microsoft's strategy is always aligned with where the business is going. It has morphed to reflect that the company continues to license. Microsoft is focused on insulating its portfolio; it has joined organizations help it on the defensive side.

The panel expressed the view that the market has grown more sophisticated; companies have experience in dealing with rising litigation and defending against it. In 25 years, an entire ecosystem has grown from the time money is deployed to using assets defensively or offensively. Law firms have figured out how to handle NPEs; the legal and political environments continue to evolve. It's easy to deploy capital, but hard to make sure you can get a return on it.

Litigation finance is making the market more complex. As investors, you're not able to get into something unless you can get return, Wolanyk said. Fewer than 5% of investments are financeable.

Panelists were split on whether the patent market can return to its prior growth. Most agreed that with new legislation things won't change quickly. Kisor believes that China looms large in IP; it is making all the right moves, taking the best from different court systems and creating a system where patents are enforceable and changing laws to punish repeat infringers.

### **Patent Policy Update: US and Beyond**

In Washington, the U.S. House of Representatives has been focused on IP. There have been hearings on patents and issues related to section 101 legislative efforts and looking at ongoing potential reforms to the patent trial appeal board. There have also been emerging issues in trademarks, a rise in fraudulent applications from China, and a growing issue of counterfeits being sold through online platforms.

IP will not be a major factor in the China trade war, said Mark Cohen, director of the Asia IP Project at the Berkeley Center for Law and Technology. We'll continue to see conversation around licensing collaboration, an instability in supply chains, people moving around their manufacturing and also moving away their IP rights. There will be a lot of work for lawyers, so it may affect litigation strategies.

Jamie Simpson, Chief Counsel, House Judiciary Subcommittee on Courts, IP and the Internet at the US House of Representatives said that if there is to be litigation there need to be an answer for people who don't handle patents as to why this is a good development.

On the 101 debate, the US has gotten weaker in some areas while China has grown stronger. China has acted in its own self-interest but 101 hasn't necessarily weakened the US IP system.



## **Key Developments in SEP Litigation**

### **What is your perception of how licensees and licensors are operating in SEP market now?**

Shival Virmani, VP Head of Mobile Patent Licensing, InterDigital: There is no one size fits all but it's as challenging as ever. Companies are holding out; there's little incentive to take a license in a timely fashion. There's a significant desire to have data, to understand the patent, to solicit that information. But it's a tough environment right now.

Peter Toto, Senior VP, IP, Sony: Sony has been in patent SEP licensing for DVD, CD, and other areas. We are locked in to standards as a tech company. We need to develop standards and implement them in our products. So, standardization is still key and you can't do it yourself. The environment is difficult for licensors; now is as tough as it has been for licensors, mainly because of how laws have changed due to eBay. When we started with mpeg, there were only a few patent holders, now there are many more patentholders of standards licensing

Toto said there has been a point in licensing and the system is self-correcting. There is no agreement between the courts on a methodology for valuing SEPs. The guidance is still not clear on how to license SEPs.

Boris Tekslar, CEO at Conversant IP Management said his firm offers arbitration but they get few takers. Licensees are hesitant because it's a non-appealable decision. It's cheaper to not take a license and pay litigation expenses than to not take a license. Until this is remedied, the market place will not be efficient.

### **Has the DOJ change on FRAND positions had an impact on the market?**

Peter Toto: There's a sense now that you can get an injunction in the ITC. The Apple-Samsung case caused some confusion. This could change the dynamic of these negotiations as one of the issues you face as a licensee is that the rates change. So, in the context of negotiations people aren't always offering FRAND offers all at once.

### **What are your thoughts on single jurisdiction versus multi-jurisdictional strategies?**

Alexandra Brodie, Partner and Co-chair of Global Tech at Gowling WLG said if the Unwired Planet v. Huawei decision affirms other decisions the UK will be attractive because you can get a global license set there. Other jurisdictions will look to mirror that so they can resolve disputes. Whatever happens it will bring together a lot of international activity, retaliatory actions in other jurisdictions and licensees and licensors should consider strategies now because either outcome will create changes and not create quiet outcomes.



Peter Toto said that the most effective strategies are multijurisdictional. With the uncertainties of valuations of SEPs in the US there is uncertainty but you still can get a favorable decision here. There are successful negotiations over cellular SEPs. If you are considered non-core, the situation may be different. The multijurisdictional strategy is expensive but it's the likely most effective route to getting a deal done.

### **Is it fair that all SEP decisions involve some world wide component?**

Panelists said that if the Unwired case is upheld, we will see a race to set a FRAND rate. People will race to places like China to get an adjudication that it can't be worldwide. India also figures to play an important role, as China handset makers are exposed there and could play an important role in driving outcomes. Ericsson recently settled there. The panel agreed that there will be heavy activity in courts regardless of the outcome of these decisions.

Brodie said the Netherlands is a good jurisdiction because its predictable and focused on the rule of law. There are appellate cases pending so it can be uncertain, but it should be a jurisdiction worth considering.

Other areas that panelists identified as developments they'd like to see include:

- Greater transparency in the market whether its driven by a SEP deal or not, there's no reason not to publish it for licensees or licensors.
- Patent pools have been a way to drive success; they increase transparency and efficiency. Pools have a place in the SEP space

Sony, for example, participates in pools as a licensor; it saves you from having to build an entire business.

The problem with the SEP system is that patent owners have manipulated the number of SEPs by over declaring. Panelists were mixed on how big the over declaring problem is. Tekslar said over declaring is a real issue. There could be a penalty to under declaring or declaring late, he said, so when a patent owner has patents they will err on side of over declaration because there's no penalty associated with it. So, it's a system that obfuscates the patent space.

### **Keynote – Don Clark, tech journalist**

Clark started by telling the audience he would share war stories of battles he covered and how we got to where we are today. Clark has covered Silicon Valley since 1986 and the likes of Steve Jobs, Bill Gates, Larry Ellison, and many more industry titans. He noted that two of his favorite characters were Andy Grove of Intel and Jerry Sanders, the "super sales man of Silicon Valley."



Clark explained why Sanders was one of the biggest copy cats in the semiconductor industry. Real men have chips, he said. That philosophy carries through today – real people in tech make products, they don't just license IP. Many of the big operating companies feel that way the action is in the products and that's how you should get value from your IP. Semiconductor companies went through a period of litigation in the 1970s but got past that and decided that cross licensing was a simpler way to do business. New entrants would then be the drivers of change in patent space – companies such as Dolby would emerge and license their technology.

Clark discussed several battles:

- Intertrust, which Microsoft agreed to pay \$440 million. In 2013 Intertrust went after Apple, accusing it of infringing on patents relating to security. The companies settled in 2014. The takeaway was that if you have really fundamental patents in an interesting area it is possible to win a big pay day.
- Rambus, formed in 1990, was one of the first companies to inspire antitrust responses from defense to go after it. In 2002, the FTC alleged that Rambus was engaging in monopolistic tactics by concealing its patent interests. The FTC won in district court but lost on appeal. The Supreme Court passed on the case. This was a rare company that went to the Supreme Court. The appeals decision wasn't clear on standard setting so it's a hot area for conflict and what FRAND means.
- Qualcomm, which accused Broadcom of using technology covered by seven of its patents without permission. Ultimately the court affirmed the decision of the lower court, that Qualcomm had waived its right to enforce its patent since it failed to disclose it to a standards board it was willingly a part of. Six lawyers were sanctioned, a law firm went out of business and Qualcomm wound up paying Broadcom \$900 million and Broadcom entered the cell phone market.

In short, Clark said it doesn't matter how strong your IP was and that it would always be possible for another IP holder to breach your defenses if it was clever in doing so. Clark then discussed the Fortress-Intel case in which Intel filed an antitrust lawsuit against Fortress Investment Group, alleging the firm stockpiled patents to hold up technology companies with lawsuits demanding as much as \$5.1 billion from Apple. The case would underscore the notion that times and tastes change, but Silicon Valley isn't keen on paying for patents, especially to companies that make patents their business.



## **Investors Roundtable: Is Litigation Finance Driving Deals?**

What makes IP worth investing in? It really boils down to the value of the IP as to whether it's worth investing in. Other factors include: whether or not there are 101 issues, is there a prior commercialization story, and is there prior litigation, has the IP survived IPR challenges?

There must be a successful licensing history. On the panel the case of the University of California Santa Barbara (UCSB) was highlighted, specifically the question of whether UCSB was an NPE. The patents were developed by a Nobel Laureate team, involved world leading technology. So, the patents had a great story behind the invention. The example highlighted the fact that while UCSB wasn't making a product, the invention and licensing and litigation success made them attractive investments. UCSB made it clear to the public they went using public funds to enforce their patents. They had a limited budget and didn't want to be seen as misusing public funds to enforce patents which isn't their main business. They decided it was a matter it should be more public about. UCSB wanted to set a narrative and proactively tell its story about world leading technology and the opportunity to solve a problem for a public university.

A key issue in litigation finance is determining whether publicity is a good thing. Anup Misra, director at Curiam Capital said the firm's goal is to have money come in thru litigation if the lawyers feel that putting it out there that Curiam is backing the case. Otherwise, we need something positive – what will get a settlement what will bring money in the door and if it makes sense for us to be listed in the press release, we would do that. Sara Tsou, investment manager and legal counsel at Bentham IMF said when the firm does funding agreements it assumes the case will be disclosed.

Defense strategy can often drive the lack of transparency, which can be a problem. Michael Nicolas, co-founder of Longford Capital said some firms employ tactics to create a sideshow that may delay the litigation, increase the costs. We don't believe in that, though. Unless the client is a publicly traded company, or there are balance sheet issues, we will announce the deal, he said. Details about items such as the funding agreement, deal structures, and numbers are typically not publicized.

The venue for litigation can also be critical said Sara Tsou. Venue can dramatically change the cost, she said, as well as what the budget and fees look like. She said that the venue can help inform the chances of success and help lawyers plan for the case. She said that from an investment standpoint, Bentham typically enters in later stages of litigation where the motion to transfer is passed and there's greater certainty in a win.



Investors want a track record of successful outcomes in a venue. They want cases to be heard by judges with experience in patent cases, that have done Markman cases and handled cases with complex patent issues. From an investment perspective it's important to have jurisdictions that have done a lot of work in the patent space, judges with experience. Predictability is important to investors.

Increasingly, law firms are opting to work with funders to share risk and access working capital. If Kirkland & Ellis announces its funding a case, other firms will follow. Funders can help law firms narrow the risk gap.

More law firms, both AmLaw20 and boutiques, are beginning to consider litigation finance opportunities. The key challenge of working with an AmLaw firm remains that these firms are used to billing by the hour and billing over a number of years. Before joining forces, funders have an open dialogue and seek to educate law firms as to the need to think like a plaintiff and that they may need to streamline the case. For funders and law firms to work together successfully, they must be able to align interests. Often this means having skin in the game and putting some portion of fees at risk. For some law firms this is a significant challenge and something they aren't accustomed to doing.

## **Day 2 Recap**

In general, the market isn't in worse shape than we've been over the past 5 years. Many people believe things are flat. Things are trending better. We see a significant interest in this space by investors, funds, and large companies looking to sell licenses or monetize patents. Let's recap highlights from yesterday's sessions:

In our first panel, it was revealed that things are relatively flat in annual sales of patent assets. Sales are roughly \$300-350 million per year. Fifty-two percent of sales are software patents. This is interesting because software patents used to be at the bottom for investment because of Alice issues. NPEs are still one of the major buyers of software patents. Operating companies sell 75% of patents sold in market, which means they tend to be of high quality.

On the second panel, we discussed the patent policy under consideration by Congress. The issues here relate to the constitutionality of PTAB judges, which Congress seems poised to consider in 2020. Under the Trump Administration, we're seeing more tech licensing to China take place. We talked about Section 101 legislation talks occurring in the Senate. We need a more defined law around patent subject matter and whether a patent will be invalidated based on Alice considerations

On the third panel we explored the difficult environment for licensors because there are so many patents and patentees, and it's hard to determine which ones are the best and how to value them. Licensees aren't motivated to go to arbitration to





resolve FRAND disputes and using foreign jurisdictions to issue injunctions may be advisable since the ability to obtain injunctions in the US has been greatly reduced over the past decade.

Our panel on 5G noted that this market is fraught with a lot of uncertainty since there are so many patents in the space. Billions of people are covered by technology entering the market that supports the Internet of Things, private 5G networks; these patents cover so many different technologies.

For valuing IP in public-private markets, it appears that most interest is coming from private equity and privately-traded companies. It's very hard to value public companies beyond the cash they have available. Analysts aren't tracking companies unless they are actively raising money. Prior success in a campaign isn't indicative of future success and generally it seems to be a disadvantage to be a public company.

During the investor roundtable, it became clear that litigation finance is driving deals. It's driving law firm growth too by enabling firms to take on cases they wouldn't normally take on. Firms can now do mixed hybrid fee arrangements. The litigation funds are seeing high returns, we're seeing growth of new funds. These are high risk, but large reward investments, but we see no slowdown in interest from investors. Funders also help patent holders who can monetize patents and enforce. There's also acquisition capital and operating capital and many ways that can help the business besides litigate. Investors really don't care what the patent owner does with the money as long as the returns will be realized. So, there are many more opportunities now for patent holders because of litigation funds.

### **Establishing IP Value: Trends, Tips & Techniques for the Current Market**

Competing and succeeding in today's market requires a combination of technology, law, and business. The market is completely different compared with 20 years ago, but many of the same principles apply. Some key considerations include:

- It's important to work with partners, such as companies and law firms, that have deep and broad portfolios and are willing to share and offload other activities
- It's very difficult to find opportunities to spend capital right now. It takes a lot of time to go through portfolios and understand the value of those assets and extract those that will provide a return to our investors.
- Companies and investors are spending more time trying to understand the assets.
- Asia (China, Japan, Taiwan) and Europe (Germany, UK, France) remain attractive for identifying attractive opportunities.



- SEP portfolios may be harder but firms aren't necessarily shying away from them. To look at these requires making sure these patents are what they are purported to and discussions occur around validity, damages, and how to value them
- Litigation funders are shying away from software, because the market is in flux and there is uncertainty.

The panel also discussed the use of tools to analyze specific products, components, or the patents themselves. Tools can help companies and investors refine a large list of portfolios to determine whether there is value, where the value exists. While there is no substitute for putting eyes on the claims, tools can help determine which, among a pool of thousands of patents will generate the most value.

Law firms play a key role for investors when it comes to due diligence, deal flow, connections to individuals and organizations. Firms often help investors to evaluate transactions; such a dynamic incentivizes them to work collectively. Damages analysis is critical to determining IP value. WiLAN's President and CEO Michael Vladescu said that from the outset, it conducts rigorous financial analyses, builds privileged damages assessment, looks at case law, and patent royalty rates and integrates them into a model to determine net present value and to ultimately decide if it should move forward with acquisition.

### **How AI is Transforming the Future of IP Deal making**

AI in the patent space can be an incredible time saver in defending validity. AI can help eliminate a large volume of manual work and enable companies and investors to focus on high value areas.

Eric Spangenberg, CEO at IPwe said the pace of adoption of AI will continue to accelerate. He said it would touch virtually every industry, from taking an EKG and applying AI to it to get better prediction models, to life sciences and the automobile industry.

AI will save time and reduce errors in many industries. In medical diagnostics, it will lower costs and show where further testing and analysis may be needed. Spangenberg said that AI can improve in infringement and is a good flag, but can't produce a claim chart. He believes it is a tool to reduce the initial discovery phase. What AI can do is eliminate the problem in the patent space regarding discovery costs.

### **Leveraging IP and Investing in Startups & SMEs for Growth**

Investors are working with their boards to explore new ways to monetize IP. One of the most promising ways is investing in early-stage companies. These companies need help growing and improving their portfolios. Acacia Research has explored and



considered several opportunities where it would take investment in company or future licensing rights as opposed to partnering and pursuing enforcement, according to Mark Booth, Chief IP Officer at Acacia Research.

Matt Moyers, managing director at HTS Capital said his firm is built on the idea that value is built on monetization of the assets. In the past the firm used revenue income models to value portfolios, but today it's more of a multiple based on the quality of claim chart behind it. Previously it was a royalty-based analysis, where today it's about utilization.

Valuation and the approaches to value patents can vary dramatically. It's a key reason why there are often large gaps between the bid and ask in portfolios that are involved in a transaction. The value comes down to the nature of the asset and how acquiror plans to use it.

Other areas covered include:

- Success in IP means being able to market the message to a stakeholder. At Volvocars for example, former global chief IP counsel Ray Millien said IP speaks to the auto makers strategy. "When we make money and don't sell a car its IP. If it's a brand deal or a license its IP, so it's a matter of marketing that message internally.
- Valuing IP in emerging enterprises is often tied to licensing value. HTS looks at a portfolio and determines what the invention can grow to become. Ultimately, if the patents aren't licensable, they may not have any value.
- The automotive industry is poised for tremendous growth in IP. Consider the advent of smartphones; we're all connected, and the car is the most expensive thing we interact with that is connected. There are great opportunities in the auto sector and with tier one manufacturers.
- Trade secrets are an area that is providing corporate value in IP, particularly as patents have devalued.
- The supply chain is poised to be a hot bed for investment in the next decade.
- Data will become the linchpin for the auto industry, particularly due to sensors, active driver assistance, etc.

### **What's New in the World of Corporate IP Monetization**

Michael Petracci, EVP, Business Innovations Licensing and Tech Dev at GE said the company is re-thinking the ways in which it uses its IP. GE focuses on patents and pools, as well as other forms of IP. For its part, Siemens first sold patents to an NPE in 2012. The company continues to do deals with NPEs.

DivX Strategies are evolving. The company is new at IP monetization, said Noel Egnatios, the company's general counsel. Egnatios said there's a recognition that IP requires a lot of diligence given market uncertainty, as well as valuation expertise.



Many larger companies are taking a closer look at divesting portions of their portfolios. Companies are selling to venture capital firms. Smaller companies are finding that entering licensing deals is difficult and expensive. They are increasingly selling their IP or tapping into new sources of capital by working with litigation funders.

Siemens senior licensing counsel Gerhard Tschiedel said that the company has engaged in an aggressive M&A campaign, acquiring 20 companies per year and entering the healthcare technology space. The company seeks to take the IP and apply it to other areas it operates.

We're going through a rapid period of change. In the next decade, organizations will grow more complex; this will need to be priced into licensing and your IP program. Transaction costs will remain high for monetization programs. Globalization will continue, with an increasing number of litigations to occur in China and elsewhere. China may even be a good place to enforce patent rights.

More changes need to occur from a legislative perspective, both in Congress and at the USPTO. In life sciences, for example, the flow of IP to foreign entities is on the rise and US companies are often not receiving the value they should.

Patent monetization will remain difficult, with only the highest quality patents being able to be monetized. There are complex IP issues in Germany, China and other areas, so the environment will remain challenging. However, companies and investors with high quality assets will still be able to earn returns on them.