Designing, Creating and Managing an IP Portfolio Part II: Techniques for Acquiring and Selling IP
Techniques for Acquiring and Selling IP

- Acquisition or sale of a business versus acquisition or sale of its IP only
- Patent Valuation
- Packaging several assets together for sale
- Patent aggregators / Anti-troll collectives for purchase or sale of IP
- Confidentiality issues
Acquisition of a business versus acquisition of its IP only

• Advantages of purchasing IP alone:
  – Often easier to incorporate IP into business
  – Lower transaction cost, no need to support a new business
  – IP tailored to address a specific business need

• Advantages of purchasing IP with business unit
  – Goodwill attached to the product(s)
  – People, know-how, manufacturing capacity, institutional knowledge
  – Relationships with suppliers, licensors, licensees, customers

• IP purchased as part of business:
  – What obligations or liabilities does the acquired company have? Litigation risk?
  – Other encumbrances on its IP or lack of clear title?
Patent Valuation

• See also Garner presentation, Creating the IP Value Chain

• Economic model for valuing patents:
  – Cost approach
  – Income approach
  – Market approach
Average and Median prices paid per patent in public sales: data from IPOfferings

Source of data: Patent Value Quotient data from IPOfferings
http://www.ipofferings.com/patent-value-quotient.html

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Patent Valuation

• Some factors to consider in valuing patents:
  – Whether the patents are likely to be used in litigation
  – Extent to which patent sale may affect or drive licensing revenue
  – Whether patents read on key product features
  – Subject matter core to business?
  – Significance of inventive subject matter
  – Claim scope
  – Prior art
  – Remaining term of patents
Which rights must you obtain to achieve your business goals?

- Consider value of IP alone vs IP with supporting assets and rights
- Trademark + supporting IP → brand
- Patent portfolio relating to a specific technology or product is likely to have greater value than patents sold individually
Packaging assets together for sale

• Patents:
  – Identify what is to be bought/sold
    • Patents + patent applications
    • Families of patents – continuations, divisionals, CIPs
    • Terminally disclaimed patents: must be commonly owned to avoid concerns about enforceability
    • Corresponding patents in countries outside US
Packaging assets together for sale

• Patents:
  – Identify ownership
  – Inventors vs authors
  – Obligation of inventor to assign to company, university?
  – Employees, contractors, interns, students, collaborations with third parties
  – Assignments properly recorded?
  – Representations/warranties necessary?
Packaging assets together for sale

• Patents:
  Other encumbrances may affect value or ability to sell/purchase:
  • Lapse or abandonment of key patents/applications
  • Joint ownership
  • Government rights
  • Cross licenses
  • Inventor compensation laws in other countries, e.g., China, Japan, Germany
  • Obligations to standard setting bodies
Packaging assets together for sale

• Copyrights:
  Identify the work:
    What version? Any derivative works?
  Does seller have clear title?
  Created by employee, contractor, outside firm or consultant?
  Are portions licensed-in? Can licenses transfer with assignment of copyrighted work?
  Other contractual obligations affect transfer?
Packaging assets together for sale

• Trademarks:
  – Purchase or sale of trademark in connection with the goods or service
  – Transferred with attendant goodwill
  – Often done as part of an acquisition or divestiture of a business or product line
Buyers and Sellers of IP

• Brokers
  – Match buyers and sellers for sales of patents and other IP assets
  – May provide other services, such as patent searches, market research, deal structuring, negotiating purchases, validity challenges, etc.

• Practicing Entities (PEs) and Non-practicing Entities (NPEs)
Non Practicing Entities

• Other terms for “trolls” are:
  - P-LECs (patent licensing & enforcement companies)
  - PAEs (patent assertion entities)
  - NPEs (non-practicing entities)

• But “NPE” is also used to describe universities and inventors who solely license patents to others

• US litigations involving NPEs have increased significantly over past few years
Percent of U.S. patent litigations brought by Non Practicing Entities (NPEs) by year

NPE Litigation Activity reported by RPX Corporation and cited in *The Patent Litigation Landscape: Recent Research and Developments, Council of Economic Advisers Issue Brief*, March 2016, available at:
“Anti-troll” collectives for purchasing IP

• Defensive patent aggregators
  – Purchase patents and/or patent rights to protect against NPEs
  – Members pay a fee to obtain rights to patents held by aggregator
  – Aggregators may acquire patents preemptively to keep them from being purchased by NPEs
  – When possible, may acquire patents directly out of litigation
  – May obtain rights from an NPE for members at reduced cost

• Aggregators like RPX pledge never to assert the patents they acquire
  – Defensive patent aggregator with many members
  – Uses aggregated capital from membership to acquire patents in the open market and out of litigation
  – RPX offers NPE liability insurance protection
Confidentiality issues

- Enter into confidentiality agreement before starting business negotiations
- Highly sensitive information exchanged
- Limit access to purchaser’s attorneys only
- Assignment agreement terms & conditions confidential?
  - $ exchanged to be made public?
- Recordation of assignments of patents, trademarks and copyrights with appropriate government agencies
Conclusions

• IP sales have become mainstream business transactions
• Responsible IP asset management can uncover otherwise untapped revenue opportunities
• Identifying, valuing and packaging IP for sale requires understanding of the assets as well as the risks, opportunities, mechanisms, and consequences associated with a sale
Techniques for Acquiring and Selling IP

Thank you!

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