



# Strategic Intellectual Property Management for Funds and Portfolio Companies

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# Agenda

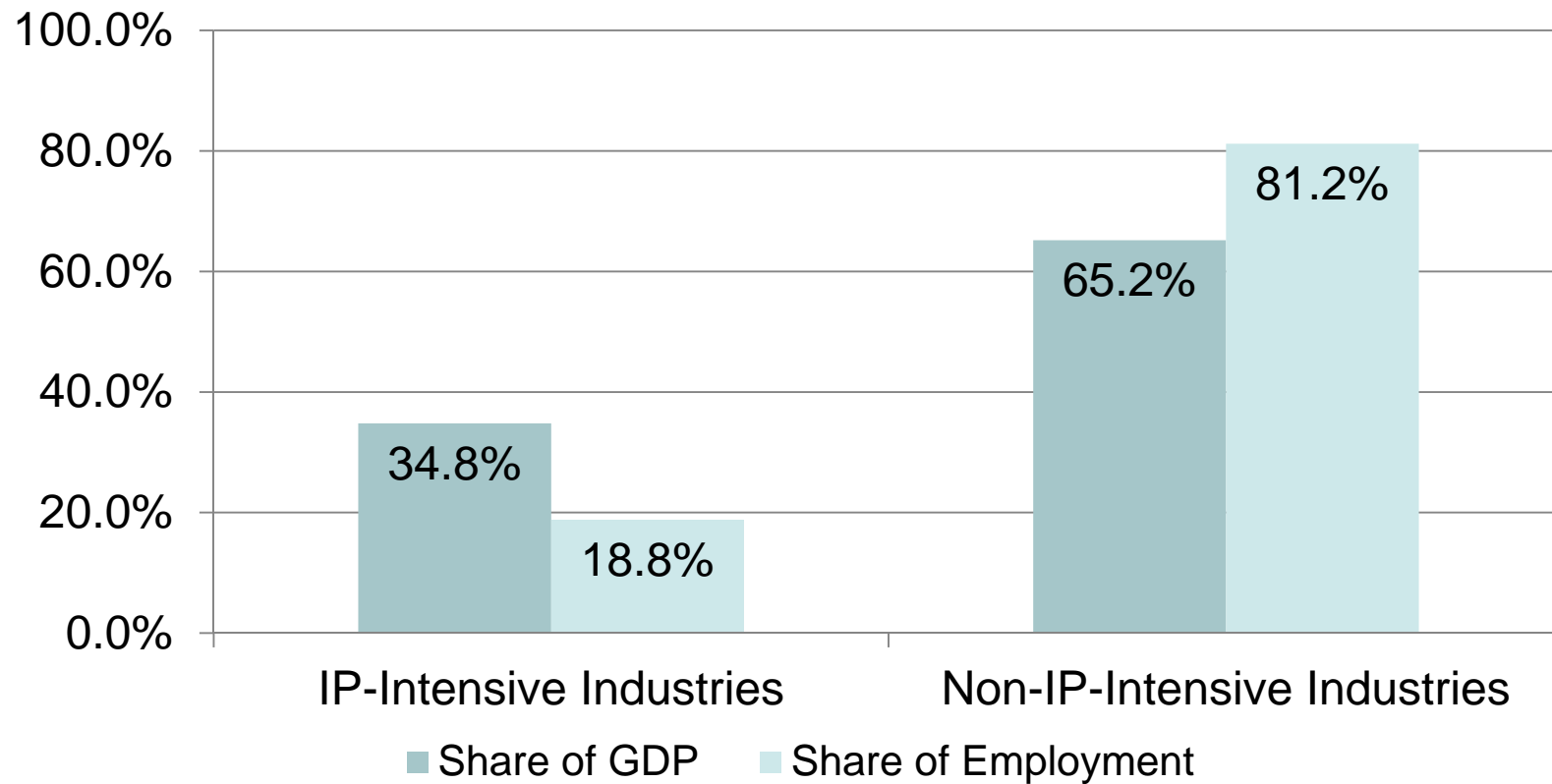
- What's the value of your IP ?
- Brand development for funds
- How to increase the value of a portfolio company's IP
  - Pre- and post-closing IP strategies
- How to decrease IP spending
  - Alternative Fee Arrangements (AFAs)
- Benefits
- Q&A

# IP and the U.S. Economy – 2010 Statistics (Increasing)

- Entire U.S. economy relies on some form of IP
  - Virtually every industry either produces or uses it
- IP-intensive industries accounted for \$5.06 trillion in value added
  - 34.8% of U.S. GDP
- U.S. exports
  - IP-intensive merchandise = \$775 billion
  - 60.7% of total U.S. merchandise exports.
- IP-intensive industries
  - 27.1 million American jobs, or 18.8% of all employment.

Source: *intellectual property and the U.S. economy: Industries in Focus*, Economics Statistics Administration and U.S. Patent and Trademark Office (2012).

# IP and the U.S. Economy (2010)

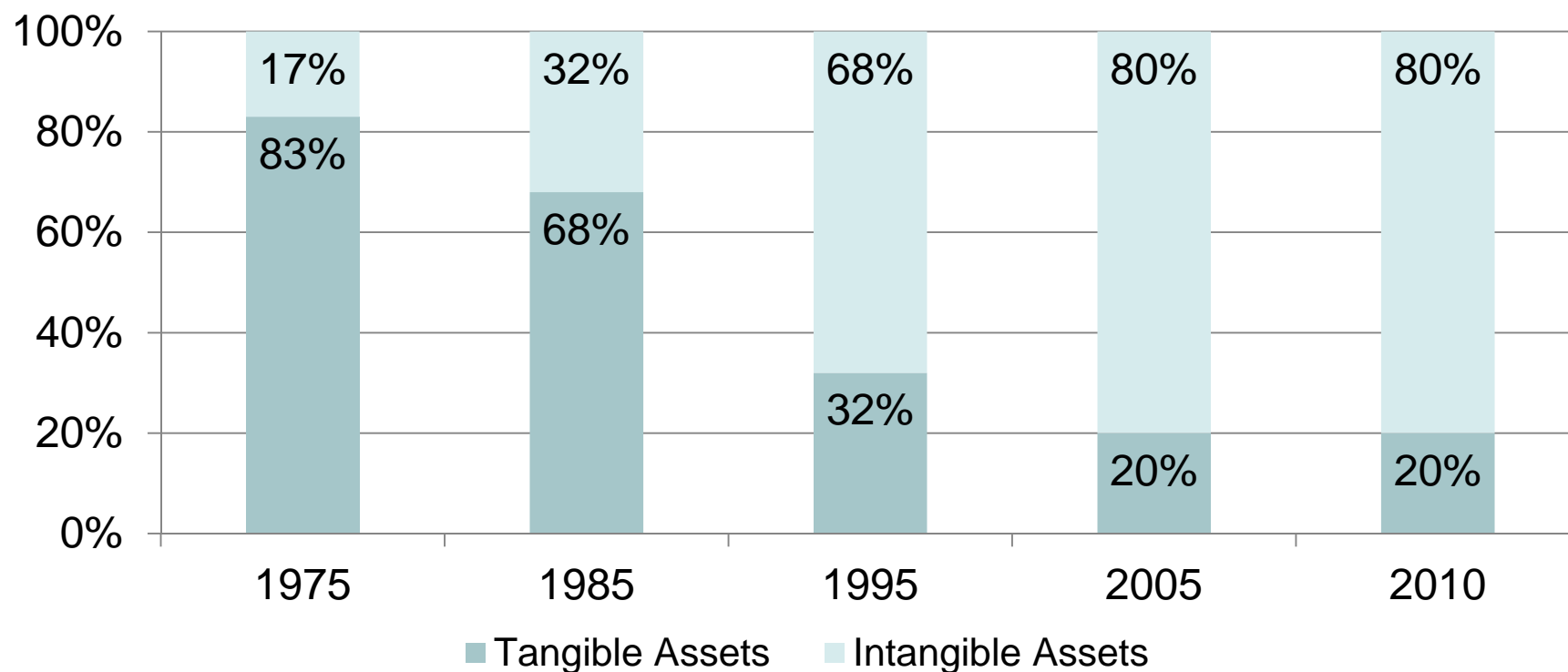


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# Major IP Portfolio Acquisitions

Patent Portfolio	Date of Acquisition	Buyer	Price	Number of Patents
Eastman Kodak	Jan. 2013	Consortium (led by Intellectual Ventures and RPX)	\$525 million	1,100
InterDigital, Inc.	June 2012	Intel	\$375 million	1,700
Aware, Inc.	April 2012	Intel	\$75 million	Unknown
AOL Inc.	April 2012	Microsoft	\$1 billion	800
ADAPTIX, Inc.	Jan. 2012	Acacia Research Corp.	\$160 million	230
RealNetworks, Inc.	Jan. 2012	Intel	\$120 million	360
Motorola Mobility	Aug. 2011	Google	\$12.5 billion	22,500
Rockstar	July 2011	Consortium (led by Apple)	\$4.5 billion	6,000

## Intangible Value of Companies – Intangible Book Value Methodology



\* Calculated by subtracting the tangible book value from the market capitalization of a given company or index

Source: Ocean Tomo.

# Initial Considerations for Valuation of Intellectual Property

- Individual patents
- Patent portfolio
- Relevant industry
  - Life sciences
  - Technology
  - Manufacturing

# Traditional Approaches to Valuation

- Market Approach
- Income Approach
- Cost Approach



# Traditional Approaches to Valuation – Market Approach

- Market Approach
  - Assets are valued based on comparable arm’s-length transactions between unrelated parties
  - Agreements involving comparable patent rights
    - License agreements
    - Databases of public license agreements
    - Acquisitions
  - Industry licensing practices
  - Portfolio
    - Broader coverage of product
    - Patent pools

# Traditional Approaches to Valuation – Income Approach

- Income Approach
  - Assets or businesses are valued based on the value of future economic benefits
  - Analytical approach
    - Incremental profits or cash flow
    - Comparison to non-infringing product alternatives
  - Use of surveys
    - Challenge of creating a survey without bias
  - Cost savings
  - Patent portfolios
    - Competitive advantage

# Traditional Approaches to Valuation – Cost Approach

- Cost Approach
  - Measures the cost to create and develop the assets under consideration
  - Technical analysis
  - Design around
    - Out-of-pocket costs
    - Time out of the market
  - Functional equivalent
  - Standard essential patents

# Brand Development for Funds

- Maturing industry
- Distinguishing yourself is key
- Brand confusion
  - Proactive tips for preventing
  - Addressing existing confusion

# Pre-Closing IP Strategies

Tip:  
Determine  
the “health” of  
the  
company’s  
intangible  
assets

- Evaluate the target’s intangible assets
  - Take inventory of all IP -- registered and unregistered, all contentious IP matters and all IP contractual relationships
  - Focus on portion of business that generates most revenue and prospective revenue
    - Target to connect the U.S. IP (trademarks, patents, etc.) to that business
    - Target to identify IP in the key foreign countries to confirm they have sufficient or excessive IP protection
    - Target to identify all U.S. and foreign IP counsel
    - When target is technology-centric, consider deep dive into the depth and breadth of patents

# Pre-Closing IP Strategies

Tip:

The extent of due diligence varies deal to deal and depends on the quantity of IP & its importance to the Company's overall competitive differentiation and operations

- All of this will save time & \$\$ post-closing
- Understand role of IP in business
- Identify how the portfolio company has historically managed its IP
- Identify any strengths and/or weaknesses in the existing IP strategy
- Determine if and/or when to record assignments with the USPTO

# Post-Closing IP Strategies

A 2-step process to build a sound IP strategy

## Step 1:

- Manage IP Spending & Consolidate Counsel
  - Understand business strategy and value drivers
  - Get a detailed understanding of the annual IP spending
    - Consider AFAs
  - If multiple U.S. firms handling U.S. IP, consolidate U.S. counsel to one go-to firm
    - Result: One point of contact with holistic view
  - Task the go-to firm to consolidate and manage all foreign counsel
    - Result: Saves time and decreases both hard \$ and coordination costs

# Post-Closing IP Strategies

- How can AFAs be used for IP Portfolio Management?
  - Monthly flat fee for specifically defined services by IP counsel
  - Discounted hourly rates or blended hourly rates for all other services
  - Further discount if reach certain amount of legal fees during year
  - Caps and collars for entire litigation and/or stages of litigation
- Also used for IP litigation
- Purpose of AFA is risk sharing and cost predictability and usually cost savings
- Request IP counsel to provide monthly summary of IP spending, including foreign counsel



# Post-Closing IP Strategies

## Step 2:

### IP Audit:

- Conduct in-person meeting with key business leaders for both the Fund and Portfolio companies
  - Understand the Fund's investment thesis, growth strategy, business goals & competitive landscape
  - Review IP basics (so business leaders can spot issues)
  - Confirm scheduled IP is complete and accurate
  - Identify brands/technology to focus efforts
  - Determine which foreign countries are of most interest
  - Review internal process for deciding whether or where to protect the IP
  - Review internal process to assess infringement risks
  - Review internal process to identify infringers and next steps

# Post-Closing IP Strategies

## Step 2:

### IP Audit:

- After completing a comprehensive audit, including knowing business challenges & objectives, create a strategy aligned with those objectives
  - Will have a process to identify new IP
  - Will have a process to determine whether it makes business sense to spend \$s protecting IP and if so in what countries
  - Will have a process to spot and assess infringement risks
  - Will have a process to determine whether to enforce IP
  - Will have a process keeping IP counsel informed so it can proactively advise

# Post-Closing IP Strategies

- Implement IP Strategy
  - Protect IP or strengthen IP protection in key countries
  - Consider abandoning IP in unimportant countries to save \$\$
  - Enforce IP or resolve IP disputes you inherited if they don't make business sense

# Post-Closing IP Strategies

- Implement IP Strategy
  - Hold recurring calls with IP counsel to update counsel on business changes
    - IP counsel to also address pressing IP issues
    - Enables IP counsel to be proactive by being involved with an evolving portfolio company strategy
    - Transparency is vital

# Benefits

The results of a sound IP strategy

- A more organized IP portfolio
- A stronger, more focused IP portfolio
- A more valuable IP portfolio
- Quicker IP decision making for all constituents particularly in contentious situations
- Smarter IP spending with greater cost certainty
- Better positions IP portfolio and strategy for exit
- Peace of mind !!!

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