

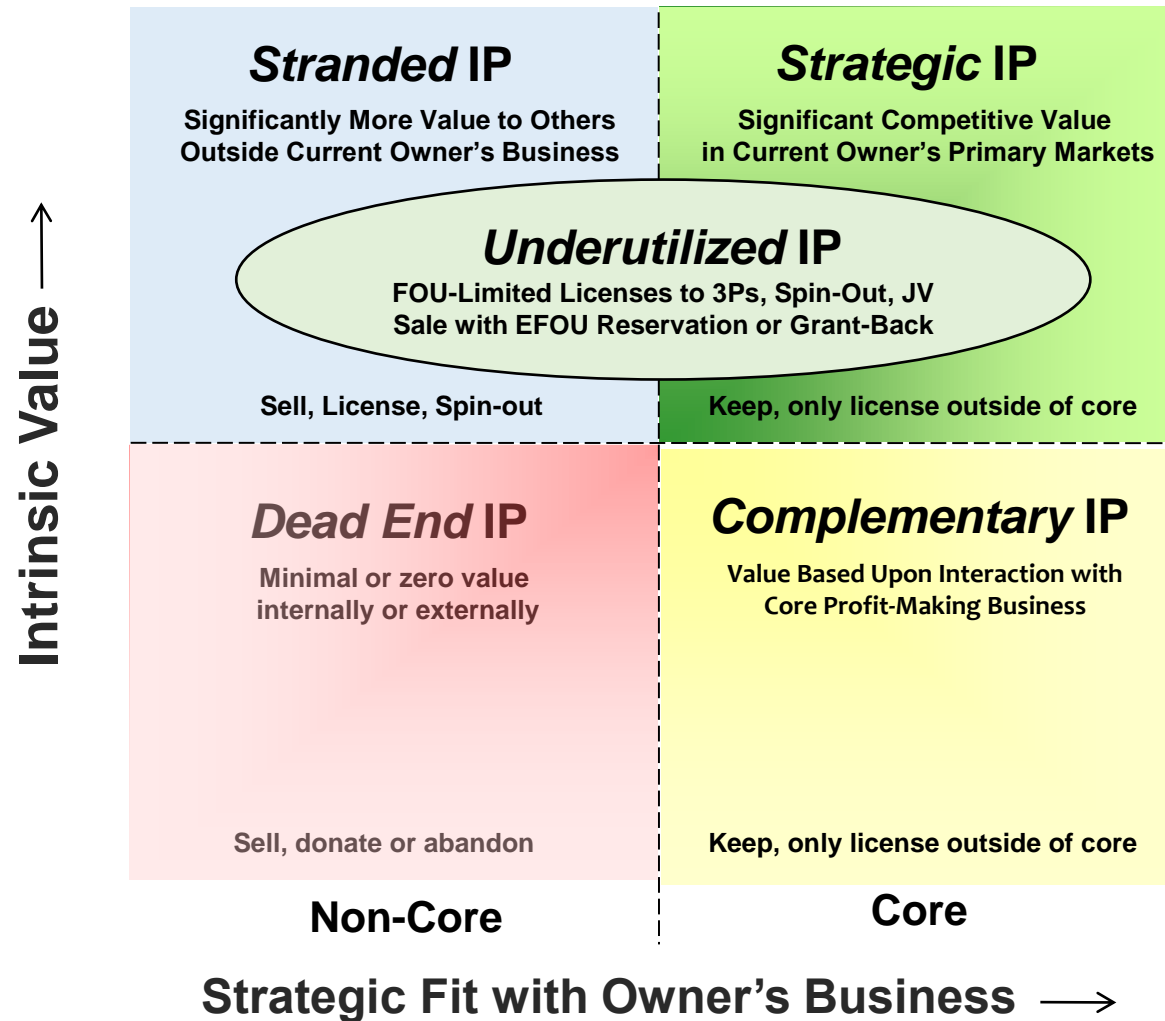
# Allocating IP Rights in *Stranded and Underutilized* Patents and Related Technology via Corporate Spin-Outs and JVs

Ron Laurie  
Inflexion Point Strategy, LLC  
[www.ip-strategy.com](http://www.ip-strategy.com)

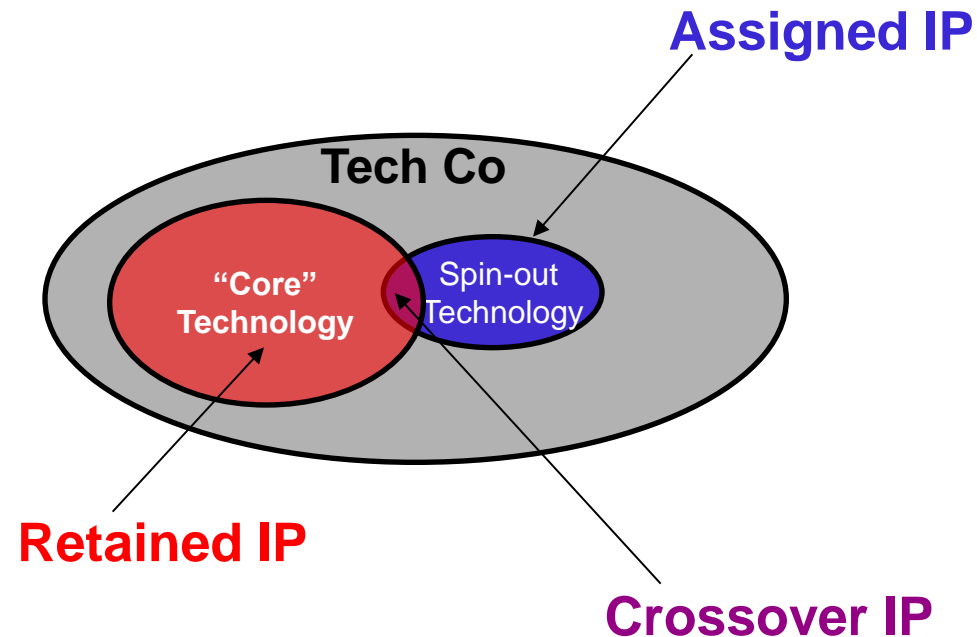


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# *Stranded and Underutilized IP Represent Valuable Sources of Monetizable Corporate Assets*

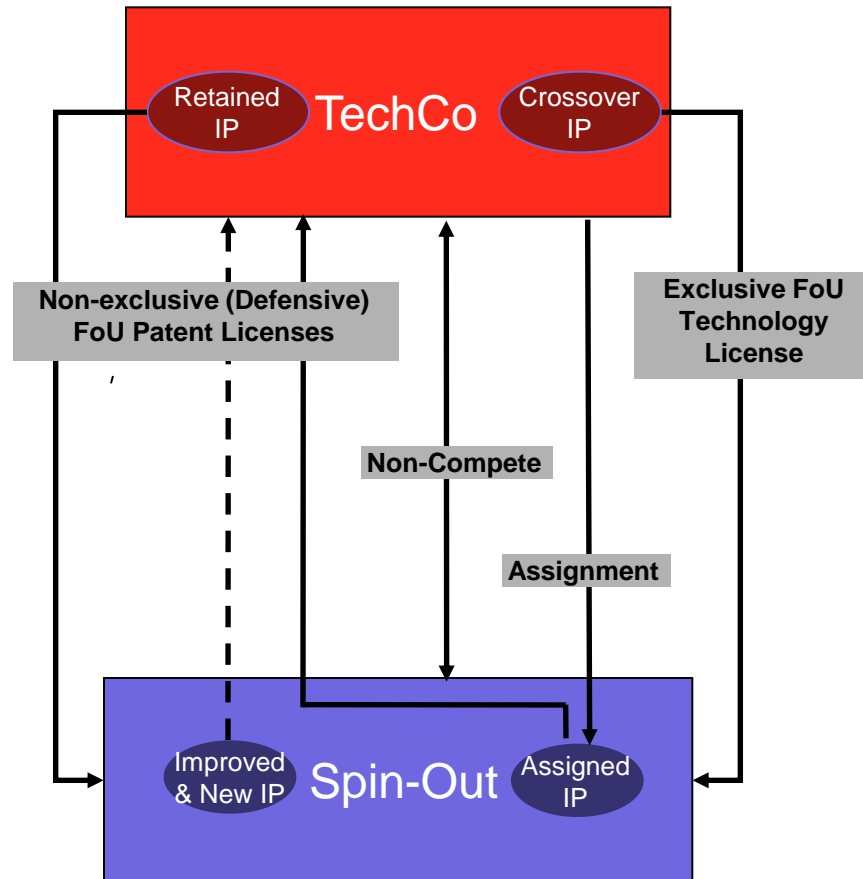


# Spin-Out: IP Allocation Categories



- IP sub-divides as *assigned, cross-over, and retained*
- Crossover IP is common to both retained and spun-out technologies
- Spin-out will improve assigned (*background*) IP and develop new (*foreground*) IP

# Spin-Out: IP Flows



- **Retained IP**
  - Definition: Primarily (exclusively?) applicable to TechCo businesses
  - Ownership: TechCo
  - Licenses:
    - Non-exclusive FoU license to Spin-Out
    - Usually defensive only
    - Enforcement: TechCo
- **Crossover IP**
  - Definition: Useful in both TechCo and Spin-Out businesses
  - Ownership: Usually TechCo
  - Licenses:
    - Exclusive FoU to Spin-Out
    - Includes technology
  - Enforcement:
    - Owner first, then Licensee
    - May be FoU specific
  - Alternative: Assign to Spin-Out with exclusive FoU grant-back to TechCo
- **Assigned IP**
  - Definition: Primarily (exclusively?) Applicable to Spin-Out business
  - Ownership: Spin-Out
  - Licenses
    - May be non-exclusive FoU Grant-Back License to TechCo
    - Technology transfer?
  - Enforcement: Spin-Out
- **Non-compete**
  - Insulates TechCo and Spin-Out from direct competition by other party
  - Spin-Out Investors require non-compete from TechCo

## IP Value-Extraction Levels – A Corporate Financial Performance Perspective

### LEVEL 1

#### Top-Line (Revenue Enhancement) Value:

- *Enforcement* – damages or settlements from third-party infringers;
- *Out-licensing* – carrot versus stick, field- of-use exclusivity;
- *Divestiture* – outright sale, revenue-sharing arrangements
- *Collateralisation* – debt financing for operations or expansion.

### LEVEL 2

#### Defensive (Cost Reduction) Value

- Reduction or elimination of net payments in cross-licensing;
- Deterrence or settlement of infringement claims;
- Avoidance of design-around costs; and
- Reduction of prosecution and maintenance costs.

### LEVEL 3

#### Strategic (Market-Related) Value:

- Price premium support for products with patented features;
- Market share protection or expansion;
- New business creation – spin-outs and joint ventures;
- Supply chain price concessions for limited-use rights;
- *Innovator v Copier* PR. (e.g. Apple-Samsung)

### LEVEL 4

#### Enterprise Value:

- Higher pre-money valuation for early-stage investors;
- Higher initial public offering pricing (e.g., Priceline);
- Higher stock price support;
- Higher M&A acquisition value (e.g., HP- Palm, Google-Motorola Mobility).

# IP SEMANTICS

- **'Intellectual Property'** in its broadest sense, includes not only registrable legally enforceable IP rights such as patent, trademark, copyright and design rights, but also 'soft' (unregistered) intellectual property in the form of documented trade secrets and technical know-how and even, in appropriate cases, undocumented technical and business-related knowledge in the minds of corporate employees.
- **'Core Intellectual Property'** is intellectual property that relates directly to the owner's current and anticipated products, markets, customers or suppliers. The hallmark of core intellectual property is that it provides a strategic advantage over competitors and is thus best monetized indirectly by way of product sales revenue, increased market share resulting from product differentiation or increased enterprise value, rather than directly by out-licensing or sale (except to the extent that it may be **Underutilised**).
- **'Non-Core Intellectual Property'** is intellectual property that is not Core and potentially could have more economic value to a third party than to the present owner. Core Intellectual Property can become non-core due to a change in the company's strategic direction, a shift in the relevant market, or discontinuance of a business unit or product lines, or it may be acquired, along with core intellectual property, via corporate M&A transactions.
- **'Underutilized Intellectual Property'** is Core Intellectual Property that also covers non-core markets or applications.
- **'Stranded Intellectual Property'** is non-core intellectual property that has significant current or potential economic or strategic value to third parties in non-competitive markets or applications.
- **'Minimal Value Intellectual Property'** is non-core intellectual property that has little or no current or prospective value either to the owner or to third parties.

# Action Plan

Patent monetization strategy should encompass far more than just enforcement and litigation. To utilise a holistic design approach, keep these basic principles in mind:

- **Identify your primary objective(s).**
- It could be as narrow as boosting revenues or as broad as enhancing the overall enterprise value, but it has to be a single overriding goal.
- **Evaluate alternative monetization mechanisms.** In the post-America Invents Act era, you need to think hard about whether enforcement through litigation presents a favourable risk-return opportunity, as compared with business-based options.

## **Learn to speak ‘shareholder’.**

Translating IP monetization strategy into terms that demonstrate its effect on profit and loss, balance sheets, share price and market capitalisation will make your CEO look good and underline the value you create for the company.

- **Take a top-down view.** Your starting point should be patents’ contribution to the profit and loss bottom line. The details of your monetisation programme reflect cost-performance trade-offs that produce an optimal result, in the tradition of systems engineering.
- **Extract unrealized value from your *stranded and underutilized patents*.** Whether it’s through licensing, outright sale or driving a corporate transaction, do not let non-core patents remain a dead weight on your books.