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# Hot Topics in Patent Licensing & Litigation

March 28, 2018

Licensing Executive Society Luncheon

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## Panelists

- **Robert Heath**, most recently served as Chief Strategy Officer and Executive Vice President, RPX Corporation
  - **Jeff Homrig**, Partner, Chair of the Silicon Valley Litigation & Trial Department, Latham & Watkins
  - **Julia Rowe**, Director and expert in the Intellectual Property practice, Duff & Phelps
  - **Ray Strimaitis**, Vice President of Corporate Development & Global Strategy, Allied Security Trust
  - **Lynne Weber, Ph.D.**, Managing Director, Strategic Value Advisory, Duff & Phelps
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# Overview of patent valuation

## Income Approach

*“What cash flows will the asset generate?”*

- Incremental income, cost savings
- Applicable products or components
- Market size, usage

## Market Approach

*“What are others paying for comparable assets?”*

- Past transactions
- Publicly available information
- Comparable royalty rates

## Cost Approach

*“How much would it cost to replace the asset?”*

- Alternative technologies
- Non-infringing alternatives
- Design arounds

## Form

*License, purchase, other*

- Lump sum, running royalty, hybrid
- Discount rates, net present value of future amounts

## Injunctive Power

*Hold-up, threat of injunction*

- Breadth versus scope
  - *eBay* factors, ITC exclusion orders
  - Public interest
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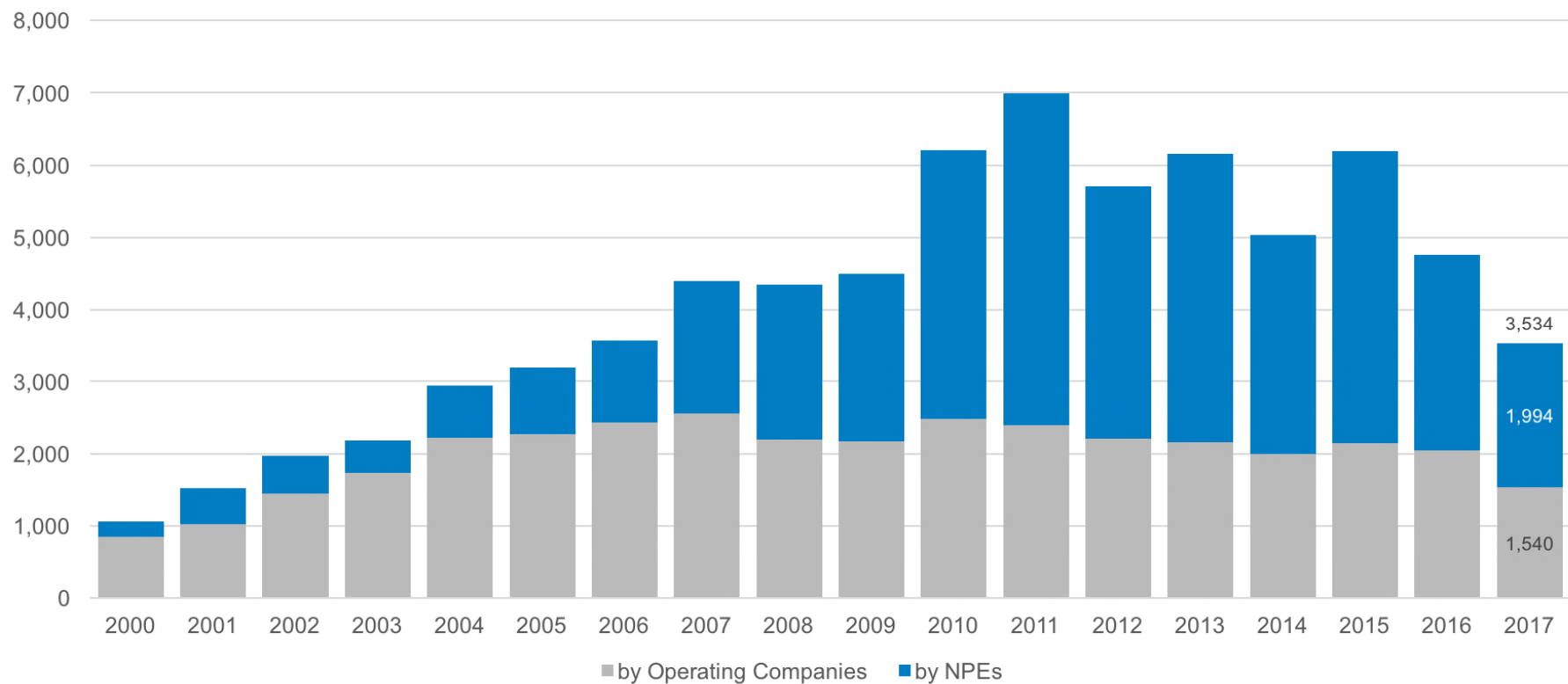
# Notable court rulings

## It's easier to invalidate patents and harder to achieve large damages awards

- **eBay v. MercExchange**, Supreme Court 2006
    - Permanent injunctions granted only in exceptional circumstances (irreparable harm)
  - **KSR International Co. v. Teleflex Inc.**, Supreme Court 2007
    - Easier to invalidate patents and tougher to get them in the first place
  - **Uniloc v. Microsoft**, Fed. Cir. 2011
    - 25% of profits rule is "fundamentally flawed." Entire market value rule only when patented feature is basis for consumer demand
  - **America Invents Act - IPR Petitions**, petition process starts Sept. 2012
  - **Octane Fitness, LLC v. ICON Health & Fitness, Inc.**, Supreme Court 2014
    - Easier to have loser pay attorneys' fees when patent cases have no merit
  - **Alice v. CLS Bank**, Supreme Court 2014
    - Implement on a computer not enough to make claims drawn to an abstract idea patent-eligible
  - **Halo v. Pulse**, Supreme Court 2016
    - Easier for patentholder to get enhanced (treble) damages
  - **TC Heartland, LLC v. Kraft Foods Group Brands LLC**, Supreme Court 2017
    - Patent venue ruling reduces volume in E.D. TX dramatically
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# Defendants added in US District Court Cases by operating companies and by NPEs

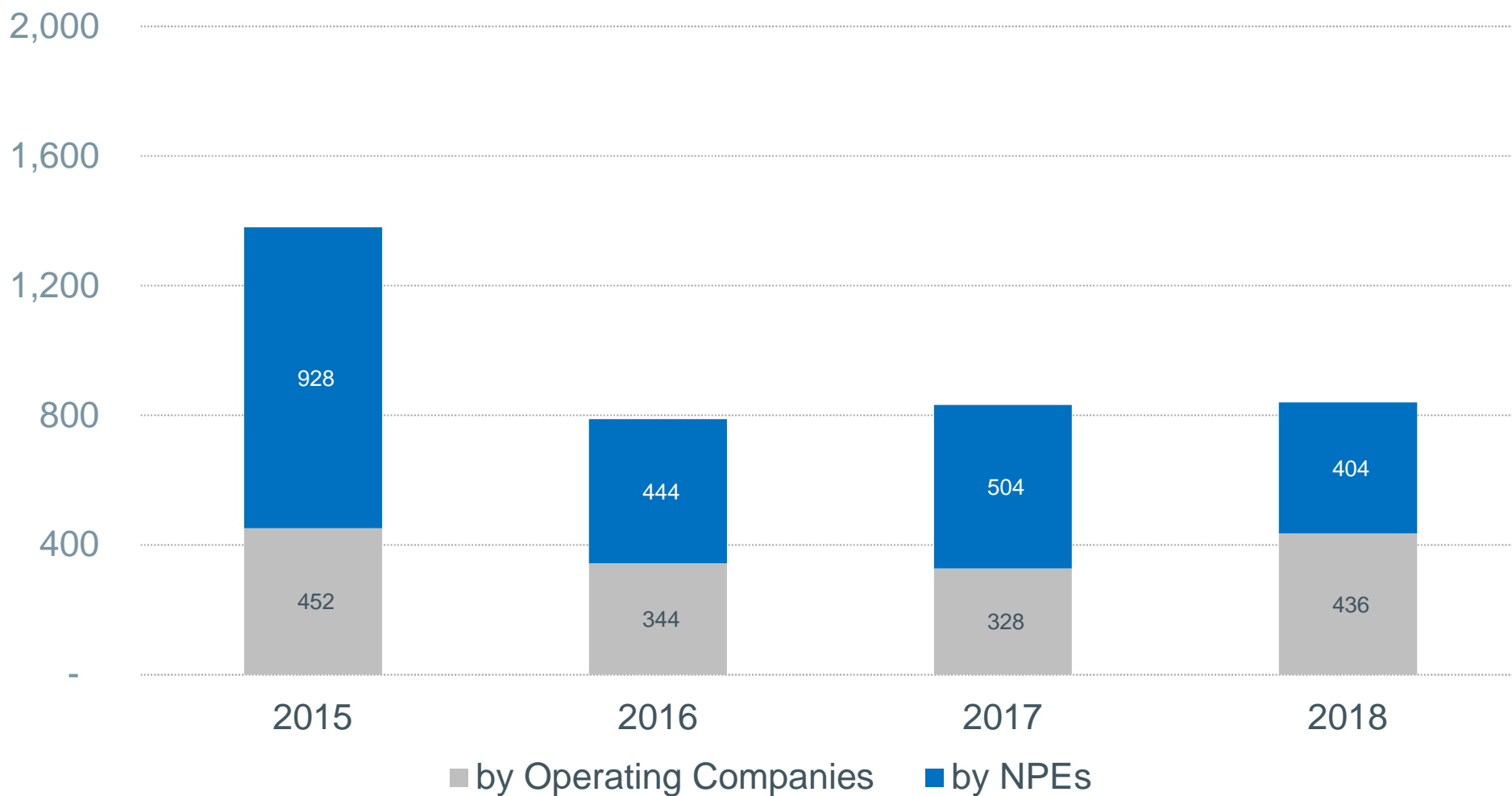
Defendants Added to US District Court Patent Campaigns Annually



Source: RPX Corp - <http://www.rpxcorp.com/2018/01/02/2017-in-review-a-year-of-transition/>

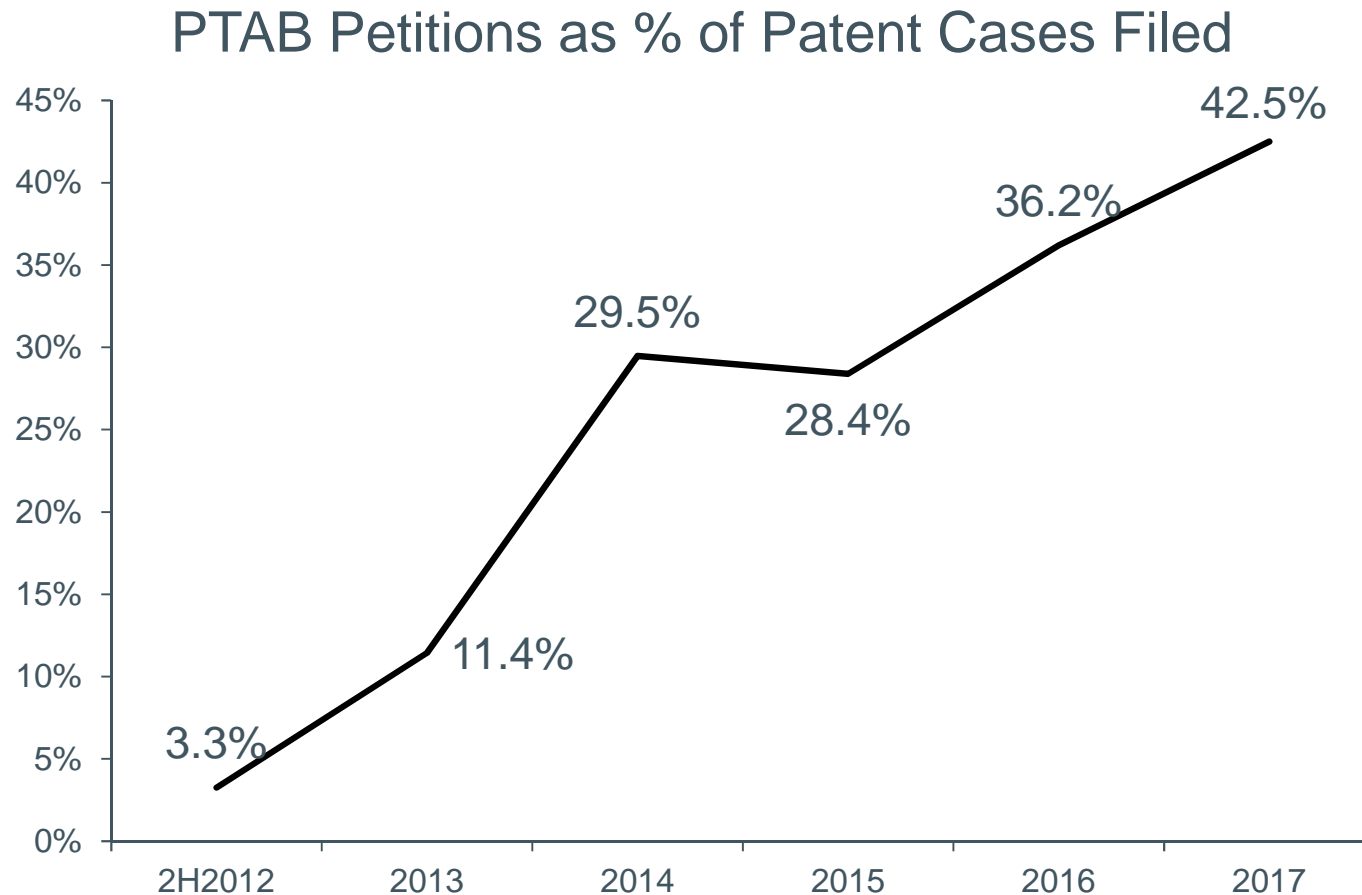
# 2018 trend in new defendants, US District Court cases

## Cases Filed through March 26 of each year



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# The world has been evolving: PTAB petitions are increasingly popular

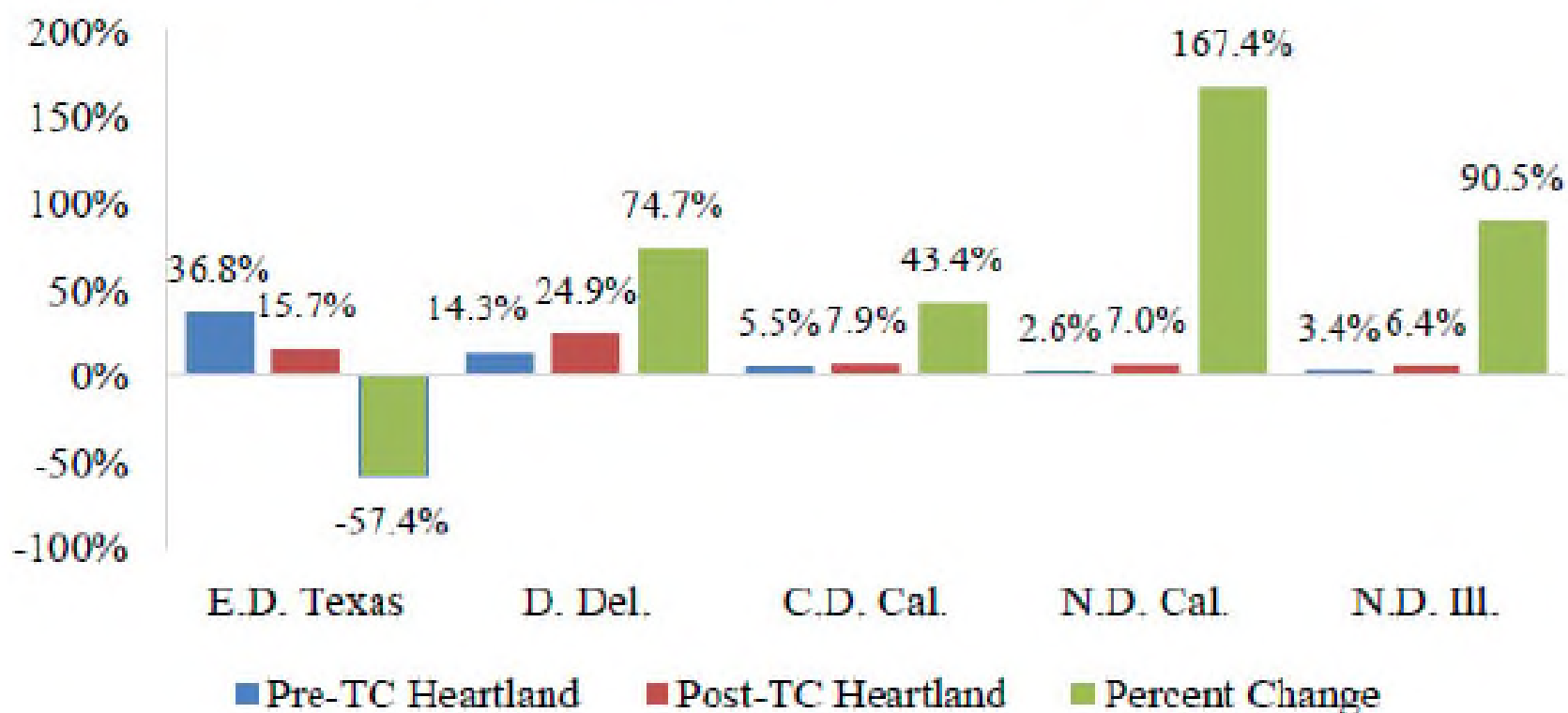


Source: Lex Machina

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# Impact of TC Heartland on patent venue

**Effect of TC Heartland on Venue\***  
(Percentage of Total Patent Cases Filed)



Source: Lex Machina analysis of 5 months filings pre- and post-TC Heartland case



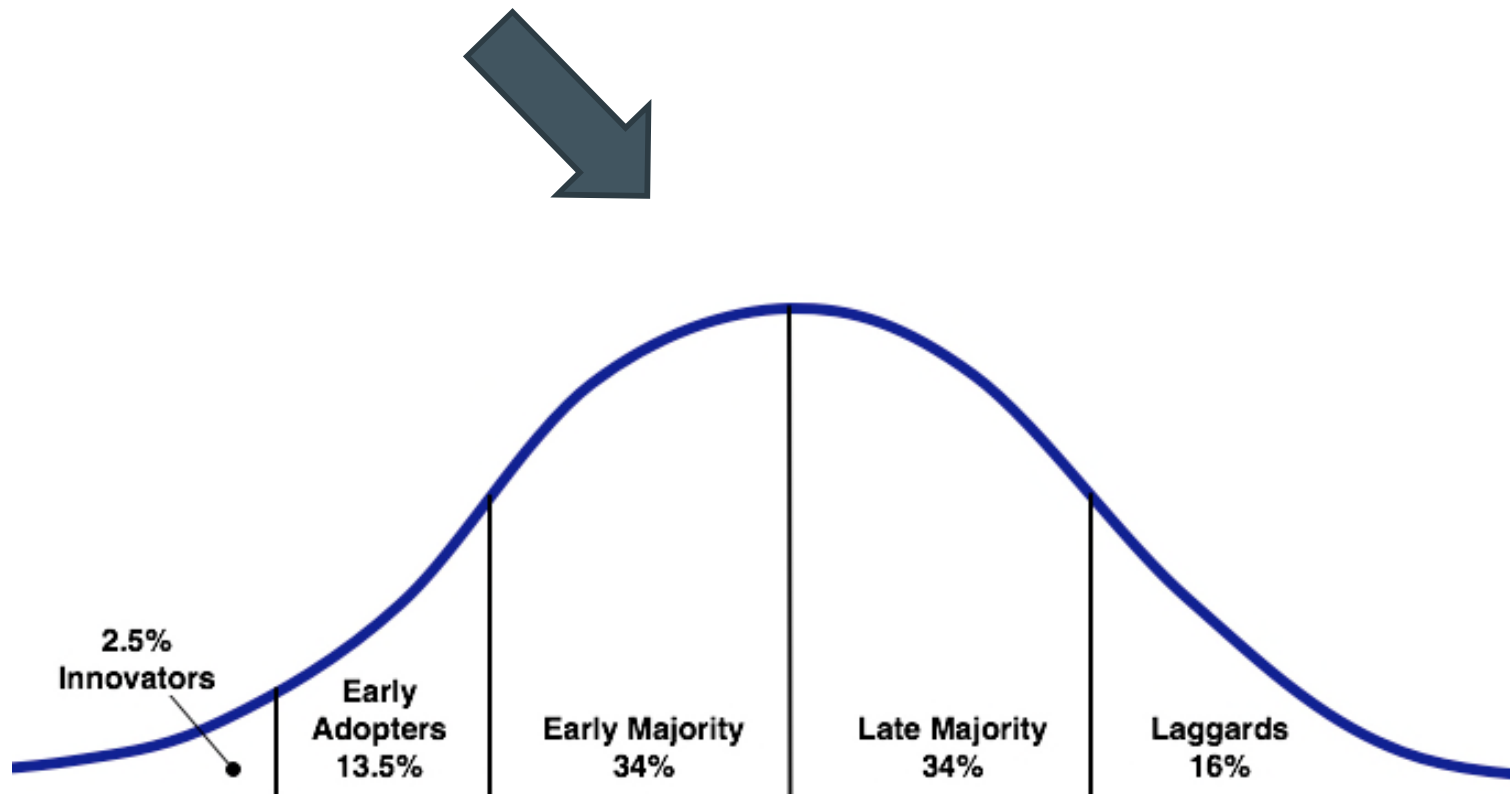
# Metrics by District Court

**Fig 18: District Court rankings: 1997–2016**

Overall rank	District	Case Count	Rank	Overall success rate	Rank	Median damages award	Rank	Median time-to-trial (in years)	Rank
1	Delaware	285	1	41%	4	\$16,162,113	4	2.1	5
2	Texas Eastern	195	3	54%	1	\$9,948,569	5	2.2	8
3	Virginia Eastern	59	9	29%	11	\$32,684,334	2	1.0	1
4	Wisconsin Western	44	12	39%	5	\$8,005,377	6	1.2	2
5	New Jersey	110	6	38%	6	\$16,164,179	3	2.7	13
6	Florida Middle	46	11	50%	2	\$497,782	15	1.9	3
7	Texas Southern	56	10	23%	14	\$58,075,564	1	2.1	7
8	California Northern	216	2	27%	12	\$5,402,099	9	2.6	12
9	Texas Northern	43	13	47%	3	\$4,793,384	10	2.4	10
10	Massachusetts	82	8	33%	7	\$7,268,728	7	3.5	14
11	Florida Southern	43	13	30%	8	\$3,084,469	11	2.1	6
12	New York Southern	140	5	29%	9	\$2,217,004	13	2.5	11
13	California Central	110	6	26%	13	\$3,066,008	12	2.3	9
14	Illinois Northern	154	4	21%	15	\$6,086,198	8	3.7	15
15	California Southern	41	15	29%	10	\$1,953,464	14	1.9	4
	<b>Overall (all decisions identified)</b>	<b>2,446</b>		<b>33%</b>		<b>\$5,783,407</b>		<b>2.4</b>	

The overall ranks for these courts are based on their relative ranking for each of the four measures, equally weighted.

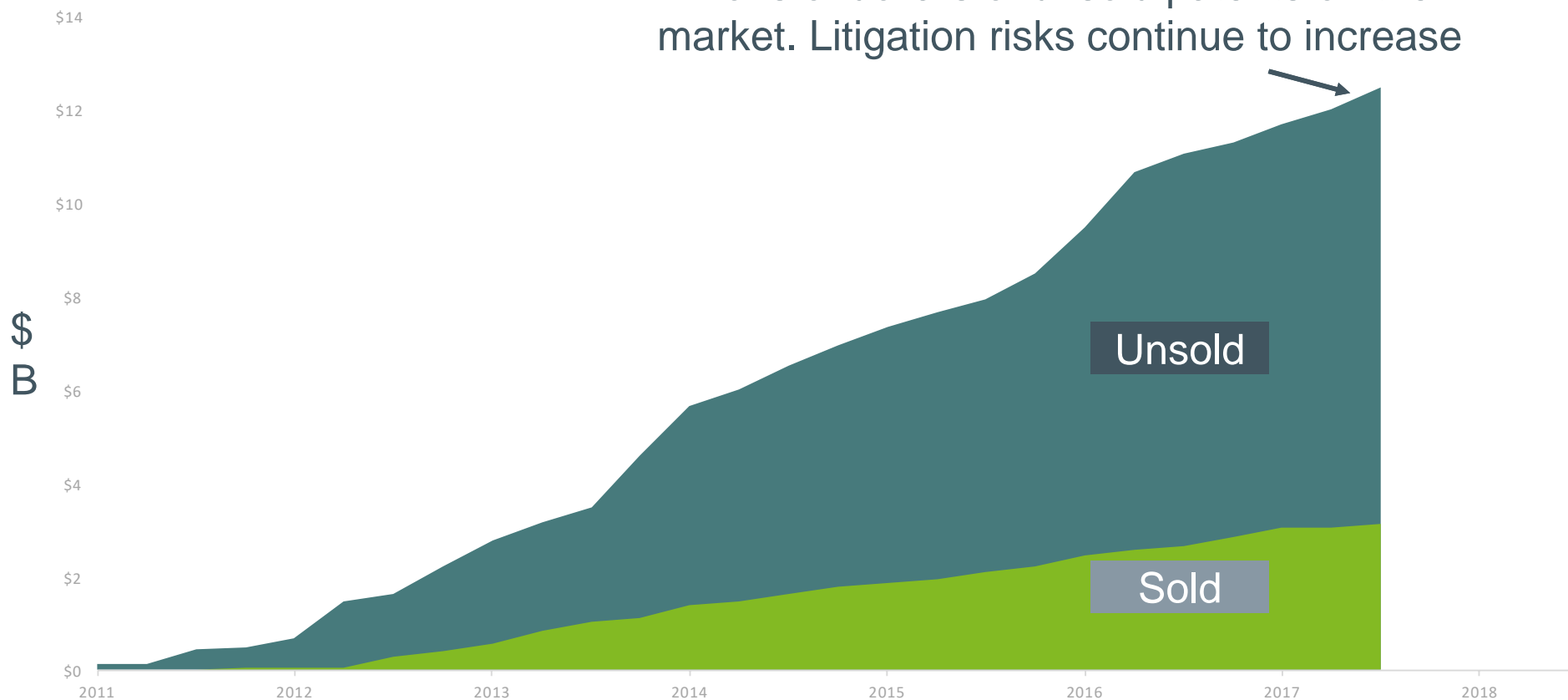
# Where is the patent market today?



Source: Everett Rogers, Diffusion of innovations model

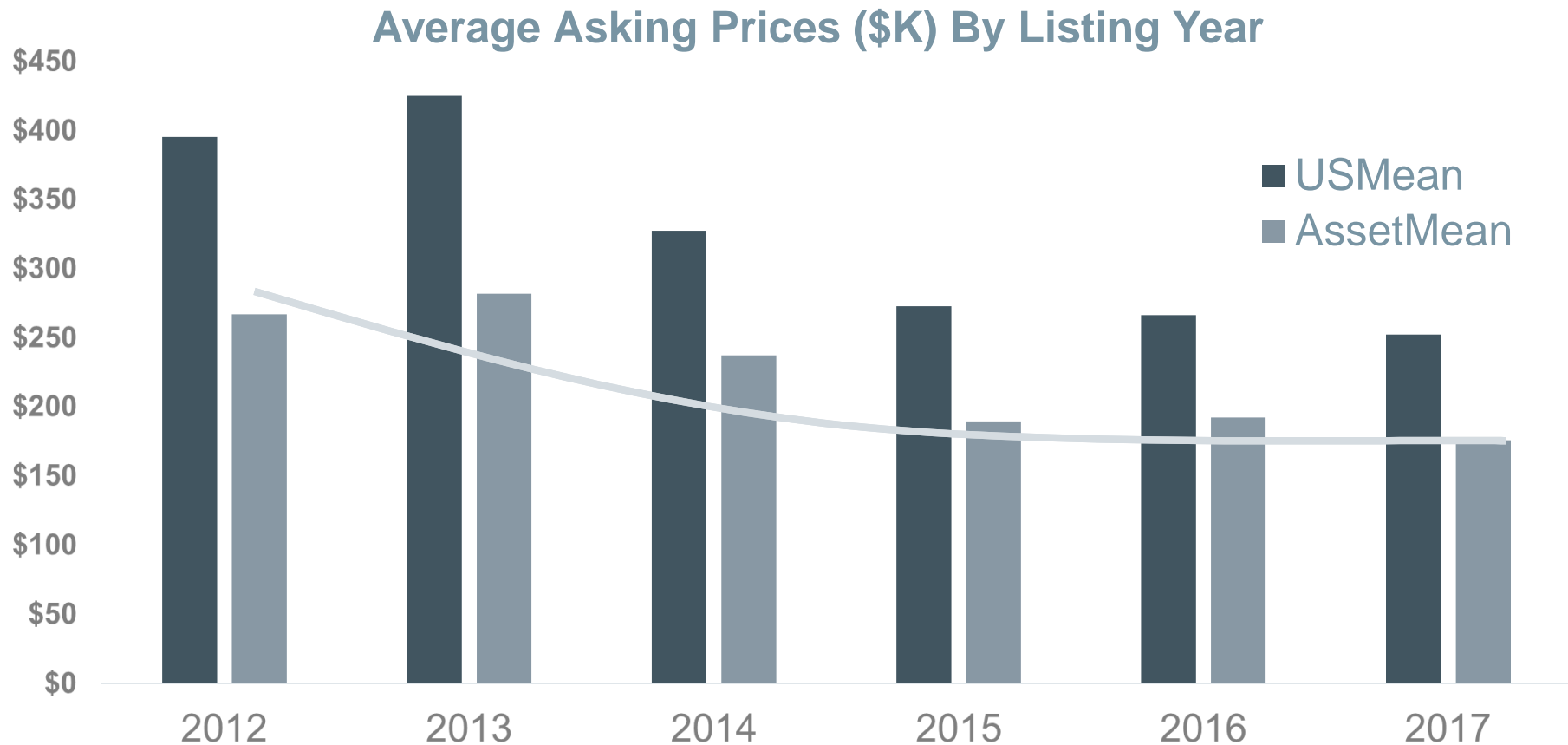
# \$12.5B in patents offered on the secondary market

Billions of dollars of unsold patents on the market. Litigation risks continue to increase



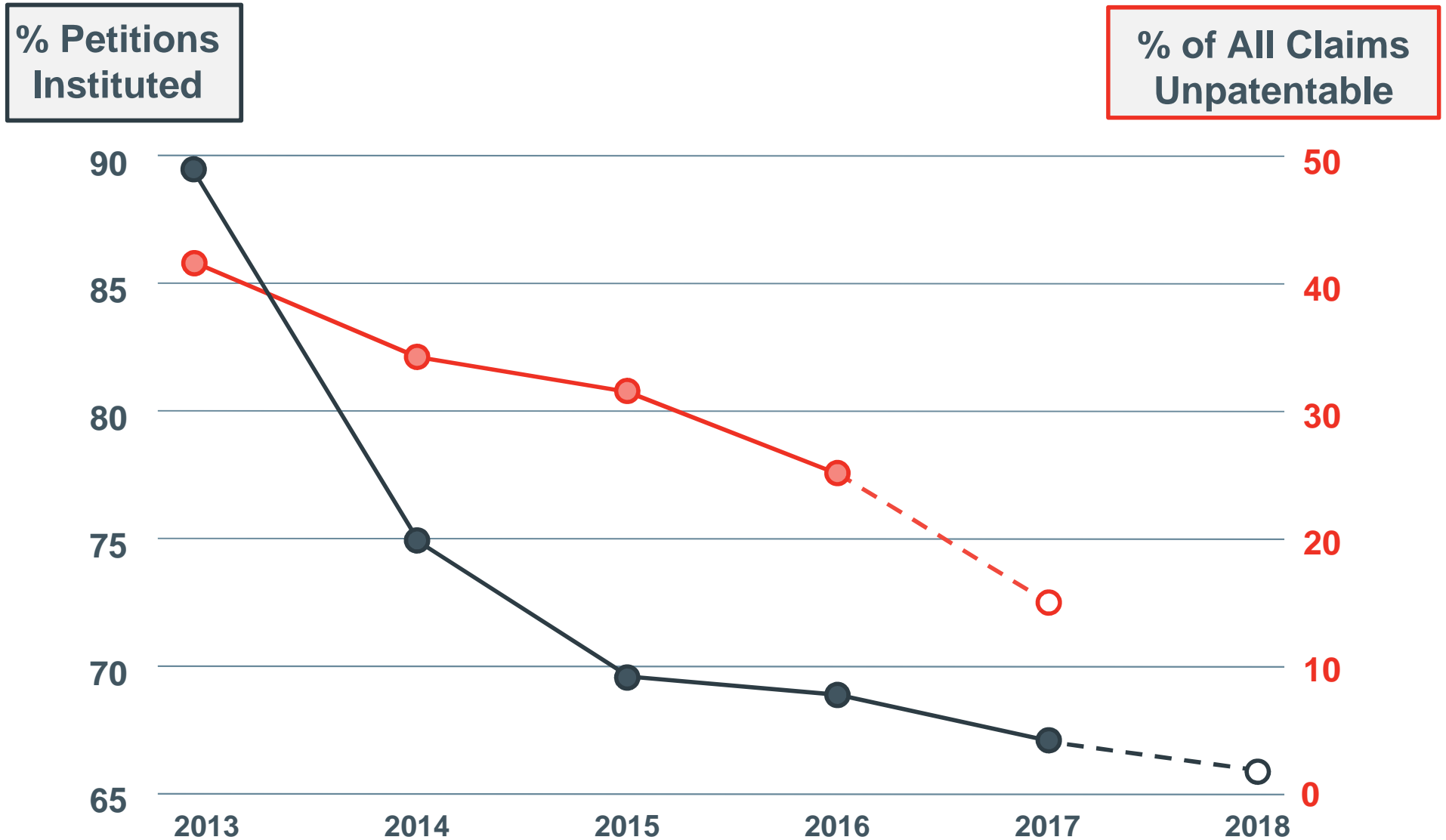
Courtesy of Richardson Oliver Group  
Copyright 2017 ROL

# Asking prices are stabilizing



Courtesy of Richardson Oliver Group  
Copyright 2017 ROL

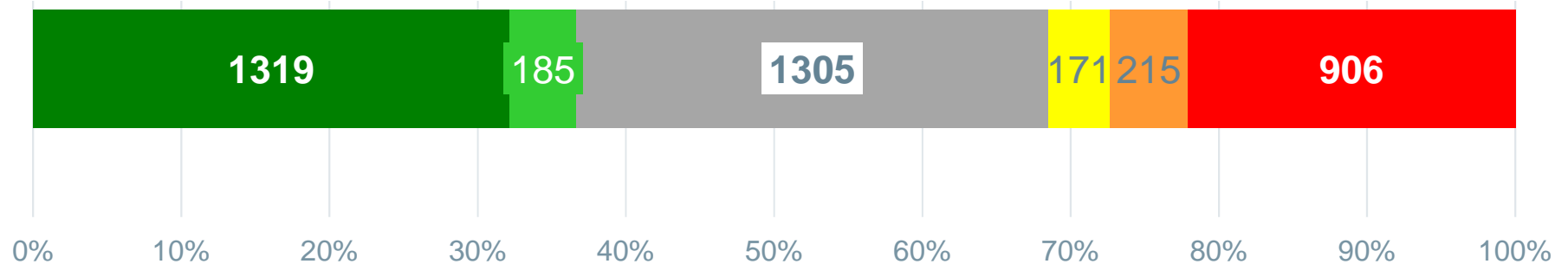
# Recent PTAB trends favor patent holders



Source: Lex Machina, USPTO, 3/21/2018

# Patentholders are now winning more often in IPRs

Sept 2012 through Nov 2016



Dec 2016 through Jan 2018



- Petition denied or dismissed
- All claims OK
- Settled
- Mixed decision
- Request adv judgement
- All unpatentable

Source: US PTO, based on 6,113 completed IPR petitions from Sept 2012 through Jan 2018

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## Is the pendulum swinging back yet?

- **General Plastic Industrial v. Canon Kabushiki Kaisha**, PTAB 2017: makes it **harder to challenge the same claims** of a patent with a second IPR petition
  - **Aqua Products, Inc. v Matal**, CAFC 2017: makes it **easier for patent holders to amend claims** in IPR
  - **Berkheimer v. HP, Inc.** CAFC 2018: makes it **harder to win summary judgment Alice motions** to invalidate patents for claiming abstract ideas
  - **Oil States Energy Services v. Green's Energy Group**: SCOTUS heard arguments re constitutionality of IPR process
  - **STRONGER Bill**: Senate (2017) and House (2018) introduce bill, requires **clear and convincing evidence to invalidate** patents in IPR proceedings, sets presumption **patent owners are entitled to an injunction**
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# Damages: NPEs v. operating companies

Median damages award higher for NPEs for last 15 years  
3.8x for 5-year period 2012-2016





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## The market is still evolving ...

**WiLAN to Diversify Its Business Beyond Generating Revenue from Patents** 9 Apr 2017

**Intellectual Ventures Shifts Away From Active Acquisition of Patents** 19 Apr 2017

**IP Monetization Firm Pendrell to Delist** 9 Oct 2017

**Acacia Research G&A Expenses Declined 44%, due to Headcount Reductions** 26 Oct 2017

**Dominion Harbor Acquires Iconic Kodak Portfolio from Intellectual Ventures** 16 Feb 2017

**Provenance Asset Group Holdings Acquires ~4,000 US Grants From Nokia** 29 Dec 2017

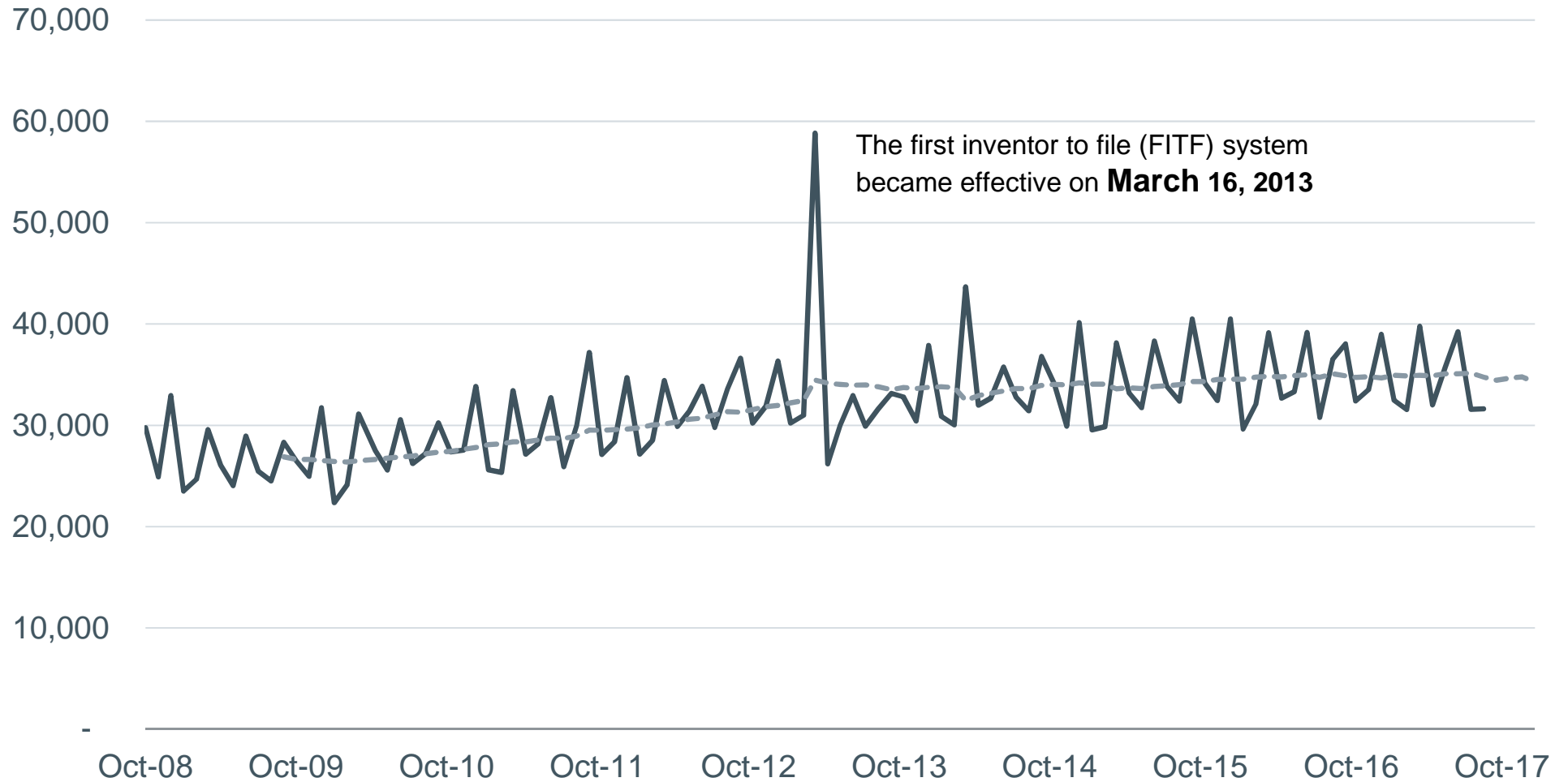
**Dominion Harbor Acquires Leading NEC LCD Portfolio with 1,200+ assets** 14 Feb 2018

**Interdigital Buys Technicolor Licensing Biz** 1 Mar 2018

**Dominion Harbor Buys 1,000 Amex Patents from Intellectual Ventures** 7 March 2018

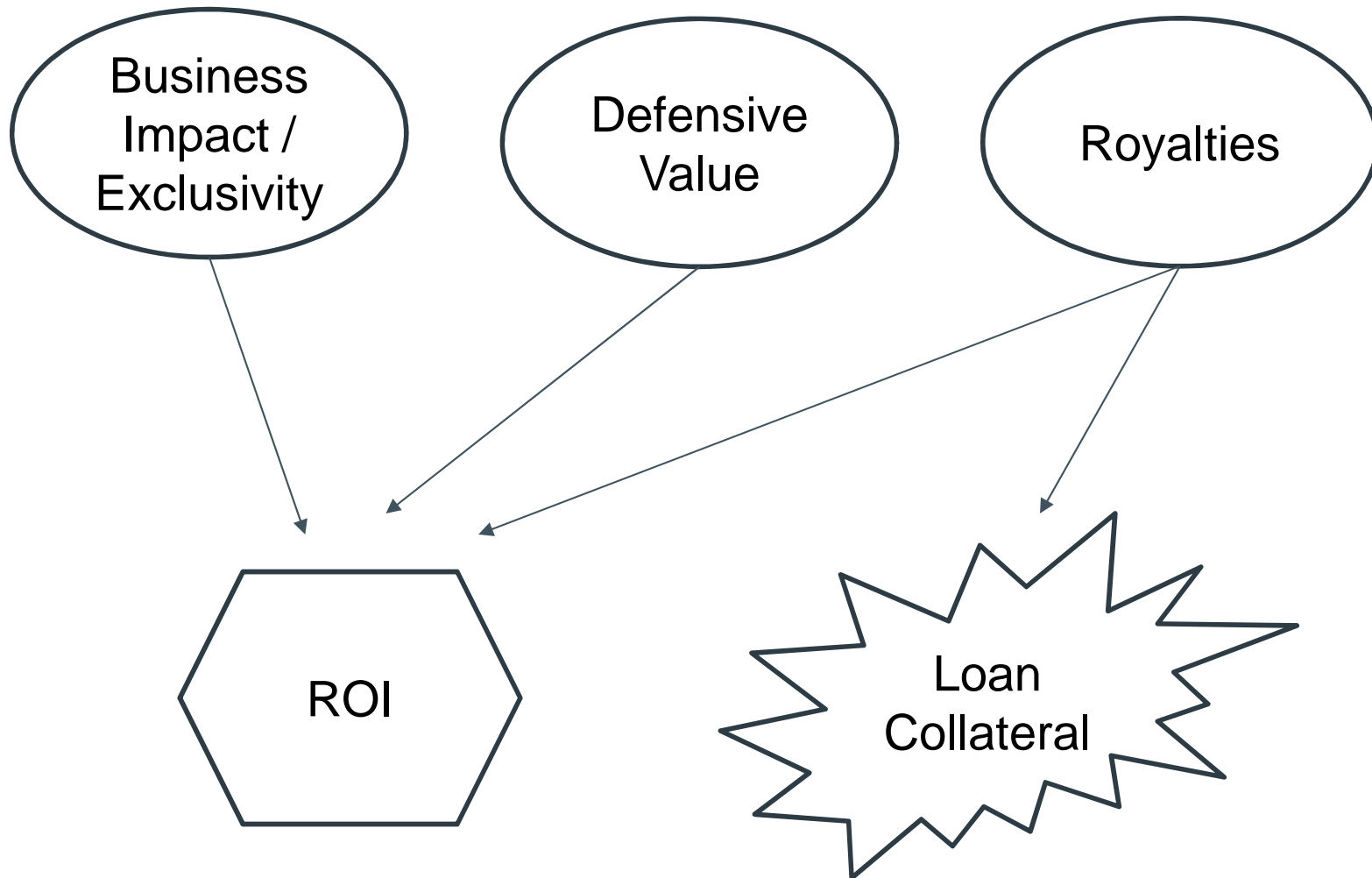
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# Utility patent applications continue to grow, but slowly



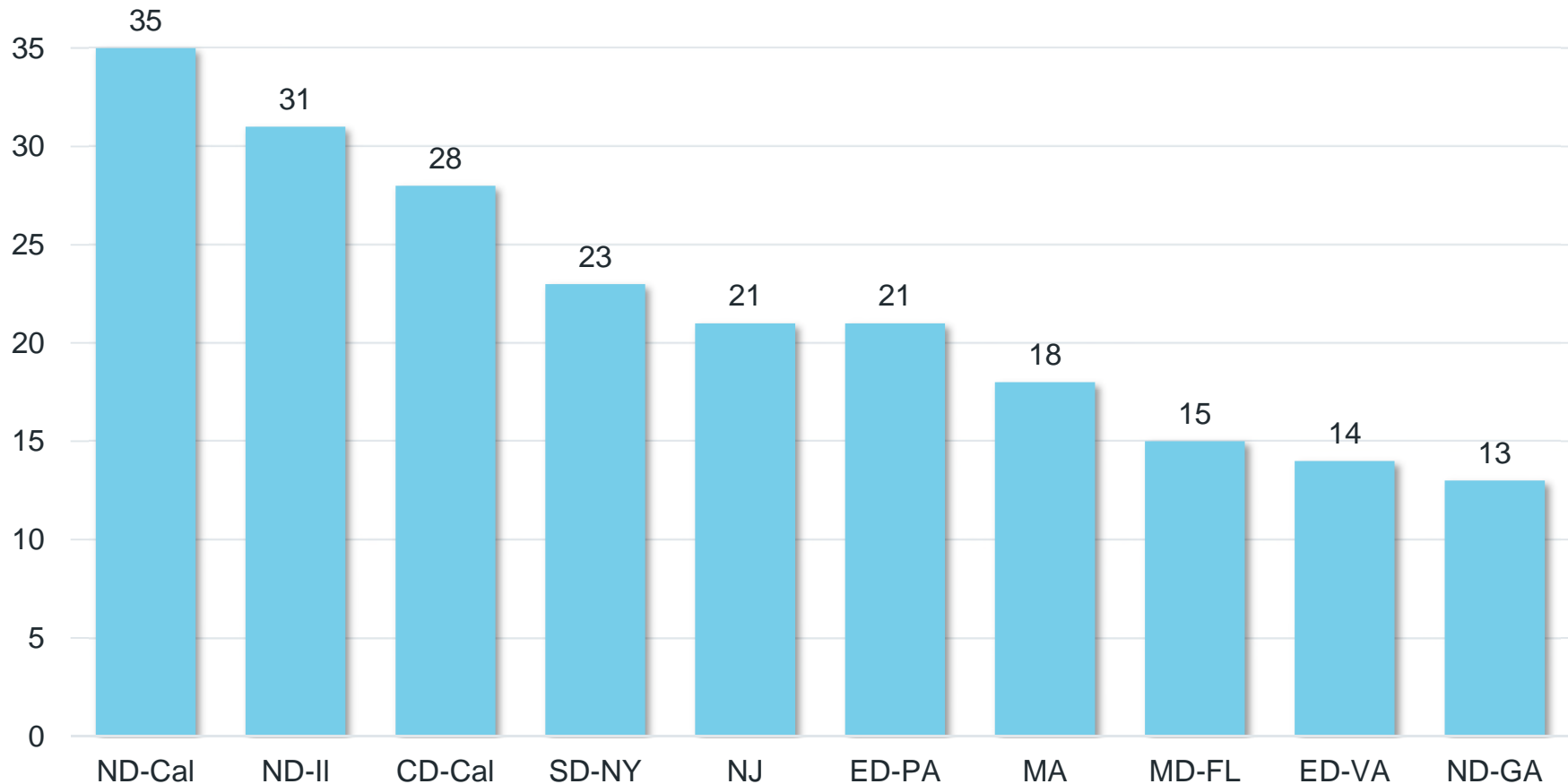
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# Are operating companies still investing in IP?



# Has the evolution in patents affected the tradeoffs between patenting and trade secrets?

**Top 10 DTSA Filings by District, May 2016-May 2017**



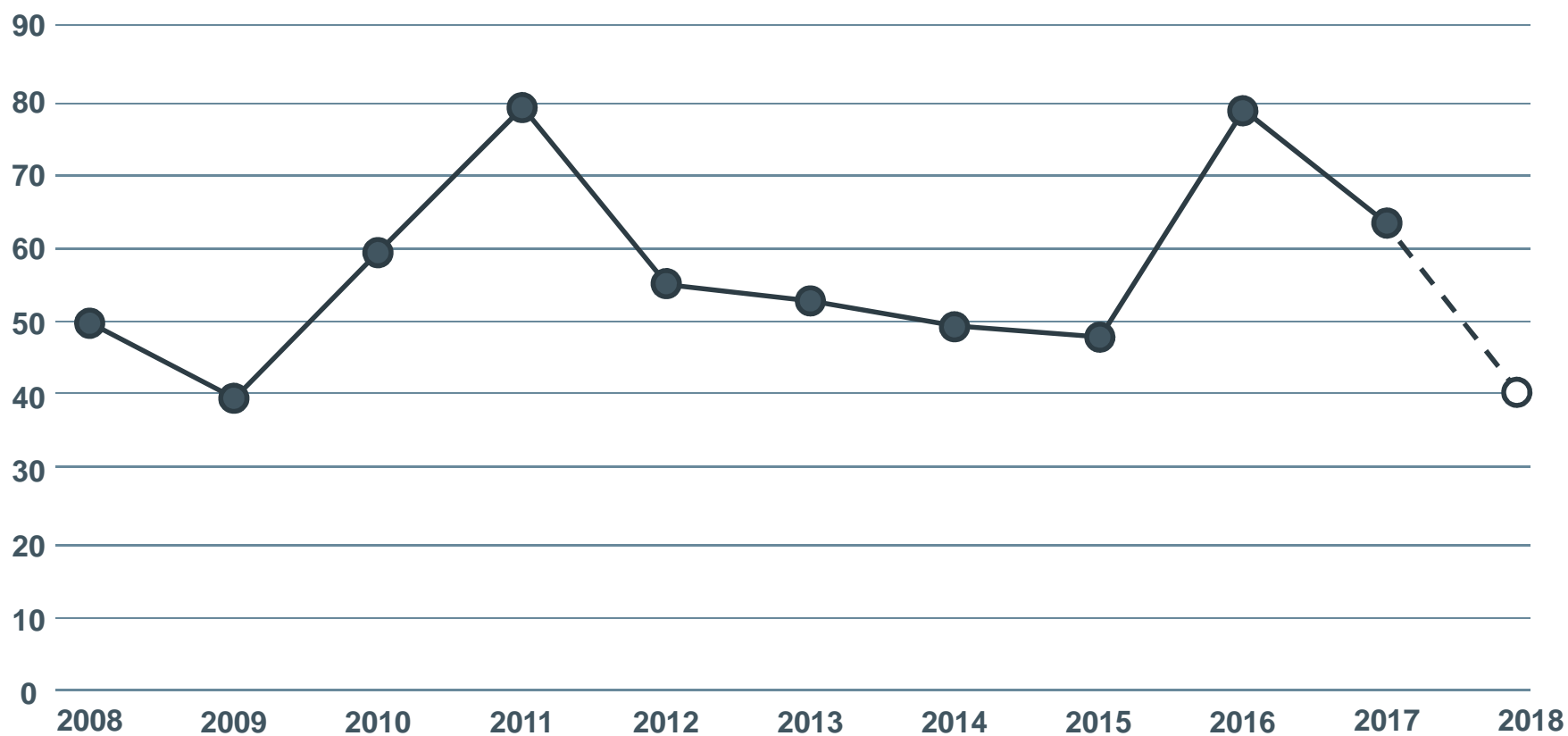
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## Selected trade secrets verdicts

- Apr 2015: \$360M settlement (after \$960M verdict); Kevlar vest case (Virginia)
  - Dec 2015: \$74M verdict against Caterpillar (Illinois)
  - April 2016: \$940M verdict for Epic Systems (Wisconsin)
  - May 2016: \$115M verdict; power plant design (Utah)
  - June 2016: \$130M settlement against Zillow (Washington)
  - Oct 2016: \$91M verdict; heart valve (Massachusetts)
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# The ITC remains an important venue

## ITC Petitions + Ancillary proceedings Per Year



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Questions?

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