A View from the Middle:
Licensing in the Current Patent Litigation Environment

Raymond Millien

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The "Middlemen" Perspective: What is PCT?

A **law firm** that delivers high-quality, cost-effective legal services to businesses competing in the 21st century knowledge economy. Our practice focuses on corporate and intellectual property law

A **bipartisan, public policy advisory firm** focused on intellectual property and technology issues, and offers a *Global IP Training Programme*.

An **advisory and asset management firm** focused on an emerging asset class - intellectual property

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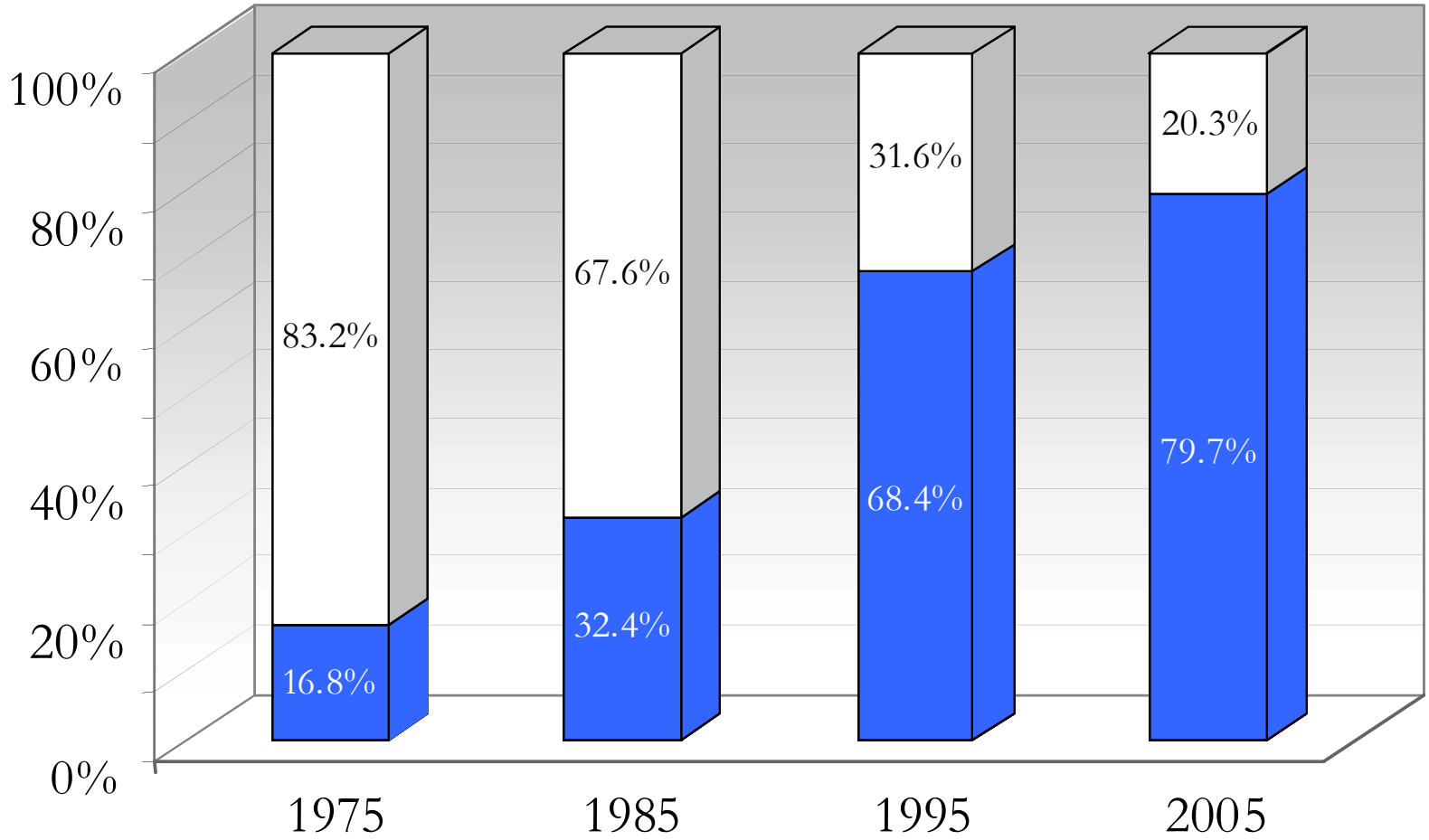
Book Value: IP and the S&P 500®



Tangible Assets Intangible Assets

(IP is the largest component of Intangibles)

Source: Ned Davis Research

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The Middlemen

Model	Exemplary Players
1. Patent Licensing and Enforcement Companies (PLECs)	Acacia Research; Fergason Patent Prop.; Lemelson Foundation; LPL; NTP; Patriot Scientific RAKL TLC; TPL Group
2. Institutional IP Aggregators/Acquisition Funds	Coller IP Capital; Intellectual Ventures
3. IP/Technology Development Companies	AmberWave; InterDigital; MOSAID; Qualcomm; Rambus; Tessera; Walker Digital; Wi-LAN
4. Licensing Agents	Fairfield Resources; Fluid Innovation General Patent; ipCapital Group; IPValue; ThinkFire; TPL
5. Litigation Finance/Investment Firms	Altitude Capital; IP Finance; Rembrandt IP Mgmt.; NW Patent Funding' Oasis Legal Finance
6. IP Brokers	Bramson & Pressman; Iceberg; Inflexion Point; iPotential; Ocean Tomo; PCT Capital; Pluritas; Semi. Insights; ThinkFire
7. IP-Based M&A Advisory	Analytic Capital ; Blueprint Ventures ; Inflexion Point ; PCT Capital ; Pluritas
8. IP Auction Houses	FreePatentAuction.com; IPAuctions.com; IP Auctions GmbH; Ocean Tomo
9. On-Line IP/Technology Exchanges, Clearinghouses, Bulletin Boards, and Innovation Portals	InnoCentive; NineSigma; Novience; Open-IP.org; The Dean's List; Tynax; Yet2.com

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The Middlemen – Cont.

Model	Exemplary Players
10. IP-Backed Lending	IPEG Consultancy BV; Paradox Capital
11. Royalty Stream Securitization Firms	alseT IP; UCC Capital
12. Patent Analytics Software and Services	1790 Analytics; Intellectual Assets; IP Checkups; Next Steps Research; Patent Café; PatentRatings.com; TAEUS; The Patent Board; TOPCAP
13. University Technology Transfer Intermediaries	Texelerate; UTEK
14. IP Transaction Exchanges & Trading Platforms/ IP Transaction Best Practices Development Communities	Gathering2.0; IP Exchange Chicago
15. Defensive Patent Pools, Funds and Alliances	Constellation Capital; Open Invention Network; Pelorus Advisors
16.Technology/IP Spinout Financing	Altitude Capital; Analytic Capital; Blueprint Ventures Inflexion Point; IgniteIP; New Venture Partners
17. Patent-Based Public Stock Indexes	Ocean Tomo Indexes; Patent Board WSJ Scorecard

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MedImmune: The View from the Middle

Sup. Ct.: Licensee Can Have Their Cake and Eat it Too!

- "The rule that a [DJ] plaintiff must destroy a large building, bet the farm, or (as here) ***risk treble damages and the loss of 80 percent of its business***, before seeking a declaration of its actively contested legal rights finds no support in Article III."

- **We hold that petitioner was not required, insofar as Article III is concerned, to break or terminate its 1997 license agreement before seeking a declaratory judgment in federal court that the underlying patent is invalid, unenforceable, or not infringed.**

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SanDisk: The View from the Middle

Fed. Cir.: Patentees Should Proceed with Caution

- "In the context of conduct prior to the existence of a license, declaratory judgment jurisdiction generally will not arise . . . without some affirmative act by the patentee."

- **We hold only that where a patentee asserts rights under a patent based on certain identified ongoing or planned activity of another party, and where that party contends that it has the right to engage in the accused activity without license, an Article III case or controversy will arise and the party need not risk a suit for infringement by engaging in the identified activity before seeking a declaration of its legal rights.**

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What Now? The View from the Middle

Anti-Patent eBay, MedImmune and KSR Trend

- Alleged Infringers may now undertake a “pay and sue” strategy?
- Patentees may now undertake a “file and then negotiate” strategy?
- The Market’s Gut Reaction:
  - Increased Litigation
  - Decreased Patent Licensing Activity
  - Increased Costs of Licensing Activity

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Contract Provisions to Protect the Licensor

Lear and Antitrust Proof Contract Provisions?

- Provisions that *prohibit* Licensee DJ Actions
- Provisions that *monetarily discourage* Licensee DJ Actions
- Provisions that *procedurally discourage* Licensee DJ Actions
- Provisions that *reward* Licensees for not filing DJ Actions

Really a question of mitigation, not elimination of licensor's risk

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Economic Reality: What About Royalty Rates?

They Will Go Up

- Licensors Will Need A "Reserve" to Counter the "Pay and Sue" Strategy
- Less Due Diligence Costs and Negotiation Resistance from Licensees Due to Option to "Get Out" Later
- Reduced Incentive to License if "Lear-Proof" Contract Clauses are not Upheld

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Economic Reality: What About Royalty Rates?

They Will Go Down

- Potential Licensees Have Increased Leverage (esp. considering *eBay* and *KSR*)
- The Ineffectiveness of the *SanDisk* "Judge Linn" NDA
- Increased Lump-Sum, Up-Front Fees and Stock in Lieu of On-Going Royalty Payments
- Patentee's Fear of Loss of Control of Forum (*i.e.,* Plaintiffs Win More Often)

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Economic Reality: It Depends!!!

No Absolutes … Except Uncertainty

- Non-exclusive Licensees Worry About the "Free Rider" Problem
- Exclusive Licensees are Less Motivated To DJ
- Start-up Licensors Can't Afford To Defend a DJ Action
- Granting of DJ Action is Uncertain -- Will Vary by Judge, Division, District and Circuit tendencies
- *Etc.*

- ***Licensee**: Are the royalty payments cheaper than a DJ suit and possible damages if the patent survives?*
- ***Licensor**: Do the potential damages outweigh costs of infringement suit and risk of invalidation?*

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Thank You!

Raymond Millien

PCT Capital, LLC

1120 20th Street NW
Suite 750S
Washington, DC 20036
202.684.8181
rmillien@pctcapital.com

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