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**MAXIMIZING THE VALUE OF IP IN  
RESTRUCTURING CASES**  
**AIRA Annual Conference 2014**

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# Maximizing the Value of IP in Restructuring Cases

## Moderator

**David Schachter, Esq**  
*Sherman & Howard*

## Panelists

**David Peress**  
*EVP, Hilco Streambank*

**Hon. Robert D. Drain**  
*United States Bankruptcy Judge*

**Jeremy Salesin**  
*VP-Acquisitions, Intellectual Ventures*

# Definitions: IP – What is it?

- Categories of IP
  - Patents
  - Trademarks
  - Copyrights
  - Digital Assets
    - Domain Names
    - Social Media Profiles
    - IP addresses/spectrum
  - Trade Secrets and Proprietary Data
- License Agreements
- GAAP & the Balance Sheet
  - Internally generated intangibles are expensed
  - Acquired intangibles are valued at cost
  - Realizable value may be higher or lower

# Definitions: How Does the Bankruptcy Code Define IP?

- Defined in Bankruptcy Code Section 101(35A)
  - Trade Secrets
  - Invention, process, design, or plant protected under title 35 (patent)
  - Patent application
  - Plant variety
  - Work of authorship protected under title 17 (copyright)
  - Mask work protected under chapter 9 of title 17

# Definitions: What is NOT Bankruptcy IP

- Bankruptcy Code Section 101(35A) Excludes
  - Trademarks
  - Trade dress
  - Domain names
  - Overseas intellectual property not covered by treaty
- The exclusion of trademarks from the definition of IP has led to conflicting outcomes in Bankruptcy Cases with respect to the ability to protect trademark licenses depending on the jurisdiction in which a case has been filed

# Tools To Realize Value From IP Assets

- Where is the asset ownership located?
- Assignments
  - Outright Sales
  - Licenses
    - Territory
    - Category
    - Channel
    - Exclusive versus Non-Exclusive
- Financing Arrangements
  - Asset Based Loans
  - Sale license back arrangements

# Patents

- Patents provide the owner with a monopoly to employ the innovation claimed by the patent in commerce
- Patents have value to businesses that can employ the patent in their products and services -- Strategics
- Patents may also be of value to Non Practicing Entities including:
  - Enforcers
  - Aggregators
  - Licensee Cartels
- Patent value has contributed to many high profile restructurings including Nortel, Kodak, Circuit City/DiVX PowerWave and Inspiration Biopharmaceuticals

# Patents May Be Subject to Licenses

- The owner of a patent may license the right to practice the art covered by its claims on an exclusive or non-exclusive basis for different applications and territories.
- In a Bankruptcy Case, the licensor under a patent license agreement may reject that agreement as an executory contract. 11USC § 365(a)
  - In that event, the licensee may treat the license agreement as terminated, or retain its rights (including enforcement of any exclusivity provision) under the license for duration of contract and any extension period. 11 USC § 365(n).
- If the Licensee elects to retain it rights:
- The Licensor must:
  - allow licensee to exercise rights under license
  - provide any intellectual property (including such embodiment) held by licensor
  - not interfere with rights of licensee
- The Licensee must:
  - make all royalty payments
  - waive setoff rights
  - waive administrative expense claim arising from licensee's performance



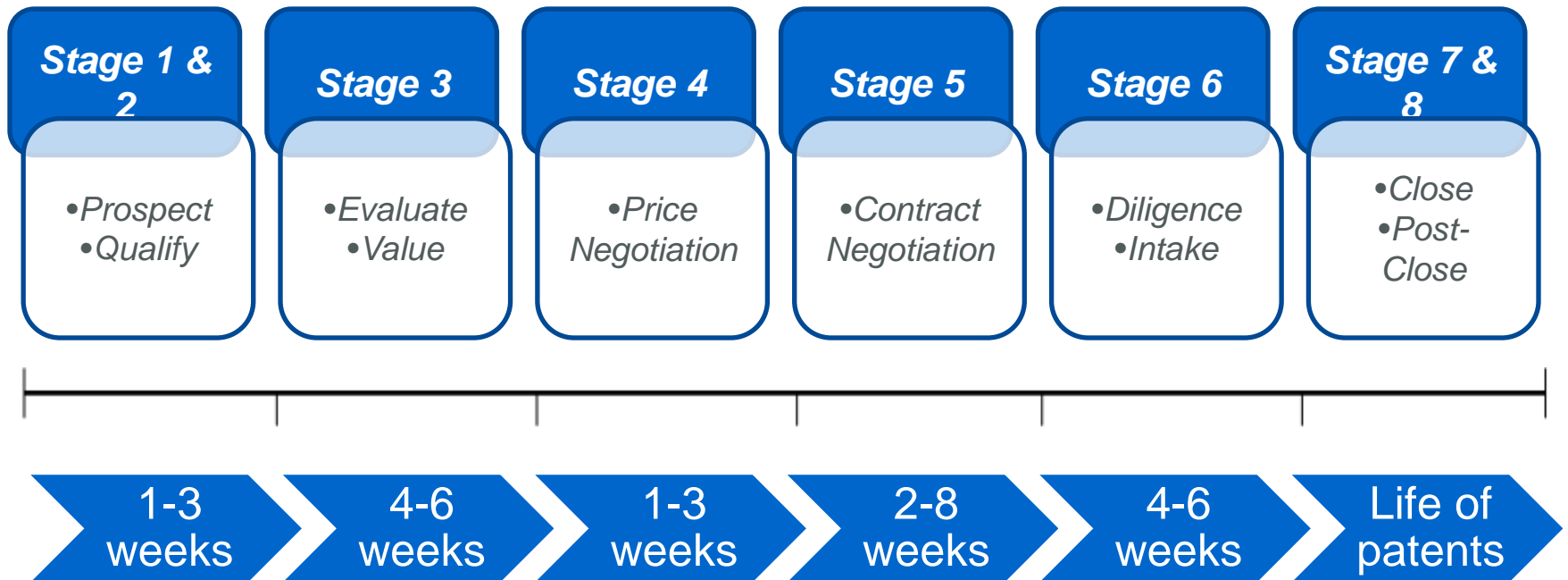
# Maximize Value of Patent Sale

- Understanding the strategic value
  - Competitive landscape
  - Claims charting and analysis
    - Outbound Licenses?
    - Material Inbound Licenses?
- Protect your IP through the Sale Process
  - Monitor deadlines for PTO filings
  - Monitor filings of PTO for “trolls”
  - Prosecute infringers
- Preventing collusion in sale
- When the sum of parts > whole
- Mimicking a going concern sale

# Patent Sale Considerations

- What are you selling?
  - Patents
  - Applications
  - Complete Families
- Are you ready to sell?
  - Marketing Materials, Evidence of Use, Claim Charts
  - Prosecution History
  - Encumbrances
  - Chain of Title
- What drives value?
  - Jurisdiction that will protect IP rights
  - Invention that is truly novel (an advance over the prior art) and is
  - Fundamental or represents a platform on which others can build and that does something important
  - Applies to a large market
  - Patented with well written, concise, broad claims
  - Unencumbered

# IV Acquisition Process



*Average deal ~ 3-6 months from first contact to completion*

# Trademarks

- Trademarks provide a monopoly over the use of a word or symbol in commerce in the category of use in which it is registered
- Trademarks have value because they create customer awareness, affinity and differentiation -- Brands
- Trademarks can be sold or licensed to:
  - Strategics – Businesses that will use the trademark to promote a product or service
  - Licensing Companies – Businesses that derive their revenue from licensing trademarks on a category, channel or territorial basis
- Trademarks are often sold in a bundle with other assets including: domain names, customer data, and designs
- Trademark value has provided a recovery in many restructurings including: Hostess®, Borders®, Sharper Image®, Berkline/BenchCraft®, Coldwater Creek®

# Trademarks May Be Subject to Licenses

- The owner of a trademark may license the right to use the mark in the classifications and categories covered by its registration on an exclusive or non-exclusive basis for different products and services, different distribution channels and territories.
- In a Bankruptcy Case, the licensor under a trademark license agreement may reject that agreement as an executory contract.  
11USC § 365(a)
  - Because “Trademarks” are not a listed form of IP in the Bankruptcy definition 11USC § 101(35A), it is not clear whether 365(n) applies to protect the licensee from the effects of a rejection.
  - Bankruptcy Courts are split on this issue and the outcome may be jurisdiction dependent.

# Maximize Value of Trademark Sales

## ■ Understand Competitive Landscape:

- Awareness within the market
- Channel Distribution
- Pure Play Licensing Models
- Opportunities for Market Expansion

## ■ Protect Your Trademark Value:

- Use in Commerce
- Samples and Designs
- Registration Filings
- Ongoing Enforcement
- Trademark Files

## ■ Enhance Your Trademark Value:

- Licenses
- Extensions

## ■ Generate OLV Recoveries in an FLV Context:

- Using the Internet and Social Media: Maintain a dialogue with your market
- Manage time to your advantage

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# Copyrights

- Copyrights provide the owner the exclusive right to publish content for commercial purposes
- Copyrights may be registered with the US Copyright Office, or claimed under common law ©
- Copyrights are often licensed on an exclusive and non-exclusive basis.
- In general, Bankruptcy Courts have held that exclusive copyright licenses may be assigned, but that non-exclusive licenses may not be assigned.
- However, there is not unanimity on this issue and you should understand the rules that are applied in the jurisdiction in which you are filed.

# Digital Assets and Data

- Digital Assets and Data are increasingly becoming material components of a businesses' IP assets.
- Digital Assets include:
  - Domain Names
  - Web Content
  - Social Media Profiles
  - Internet Protocol v. 4 Addresses (IPv4)
- Data Includes:
  - Customer Data including Personally Identifiable Information (PII)
    - Sophisticated CRM Systems
    - Loyalty Marketing Algorithms
  - Vendor Data
- Digital assets are not included in the Bankruptcy definition of IP and therefore license agreements may be treated differently in different jurisdictions.



# Customer Data- Intersection of 363 and Consumer Protection Regulations

- State and Federal Consumer Protection Laws restrict the ability of companies to collect and use Personally Identifiable Information (PII). See Massachusetts Consumer Protection Act, GL 93, s. 105(a) (limits on collection of data in credit card transaction) and Chapter 93A (Mass SJC opines that a sale of PII in contravention of stated policy constitutes consumer fraud)
- Bankruptcy Code s. 363(b)(1)(B), permits the sale of PII in contravention of a privacy policy upon appointment of a consumer privacy ombudsman if “no showing ... that sale would violate applicable nonbankruptcy law.”
- Does 363(b)(1)(B) facilitate sales of PII if it was collected in a non-compliant manner?

# Internet Protocol version 4 Addresses

- IP Addresses form the addressing system used to facilitate communication between servers over the internet.
- The original addressing system contained 32 bits i.e.,  $2^{32}$  (generating approximately 4.3 Billion addresses).
- IPv4 Addresses were allocated to Regional Internet Registries (RIRs) which gave them out free to parties who requested them.
- It became clear in the 1990s that the supply of IPv4 would be exhausted and a new version 6 addressing protocol was established with  $2^{128}$  addresses (IPv6)
- There are switching costs related to the adoption of IPv6, as a result adoption has been slow.
- Today almost all of the IPv4 allocated to the RIRs have been assigned. ARIN, the North American RIR is down to its last /8 bloc.
- A secondary market has developed for the assignment of IPv4 Addresses
- The issue of whether a debtor has a property interest in its assigned IPv4 Addresses has not been addressed by any court.

# IPv4 Addresses Can Generate Value

- IPv4 Addresses have been sold in two bankruptcy cases: Nortel and Borders Books, in both cases for over \$11 per address generating millions in value.
- Many businesses were allocated IPv4 addresses but no longer use them, or acquired IPv4 addresses in acquisitions and never used them.
- Are IP Addresses estate property? – Bankruptcy Code § 541
  - Real Property Addresses
  - Telephone Numbers
  - License Plates
- To date, ARIN has articulated the position they are not estate property, but has consented to 363 sale orders that allow transfers reserving its rights on this issue

# IP Assets Can Be Leveraged to Create Incremental Liquidity

- An increasingly active market exists among asset based lenders (ABLs) willing to make advances secured against the value of IP Assets.
- The most active industries for such loans are:
  - Retail and Consumer Products
  - Media
  - Packaged and Processed Food
  - Restaurants and Casual Dining
- Typical collateral focus is trademarks, but ABLs value entire bundle of assets including digital assets, data and technology
- Certain lenders will also look at patents and trade secrets as collateral
- Sale/License Back structures exist as well

# IP Assets Can Be Leveraged to Create Incremental Liquidity

There are many factors driving the increase in IP lending:

- ❑ The value of IP Assets on corporate balance sheets is increasing relative to the value of other traditional ABL assets such as:
  - ❑ Working Capital Assets (Inventory and A/R)
  - ❑ Real Estate
  - ❑ Machinery and Equipment
- ❑ Ecommerce and web marketing have increased the portability of IP assets by lowering market barriers
- ❑ Pure play licensing companies have created businesses based solely on the licensing of trademarks including:
  - ❑ Iconix
  - ❑ Cherokee
  - ❑ Sequential Brands
- ❑ Global demand for North American brands by manufacturers and consumers

# How IP is Valued

Intellectual property value arises from (a) monopoly rights (right to exclude others) and/or (b) signal of quality for customers (Brand Value)

- Traditional GAAP Fair Market Value (FMV) analysis is appropriate for tax accounting, transfer pricing and good will impairment testing
- Orderly Liquidation Value (OLV) and Forced Liquidation Value (FLV) are more appropriate standards for restructuring professionals and ABLs
- OLV and FLV are distinguished by the assumed compulsion of the Seller and marketing period
  - OLV: 6 to 12 months
  - FLV: 60 to 90 days
- Comparable Value Problem
  - Infrequent, Out of Context, Unique Assets
  - As much art as science
- Where IP valuation matters to a Restructuring Professional
  - Financing/Adequate Protection
  - Good Faith sales finding (363(m))
  - Plan confirmation
  - Fraudulent Conveyance Analysis

# Questions?

**Biographical information** – Hon. Robert Drain

Robert Drain is a United States Bankruptcy Judge for the Southern District of New York. He was appointed in 2002.

He received his B.A. degree *cum laude* with honors from Yale University in 1979 and his J.D. degree in 1984 from the Columbia University School of Law, where he was a Harlan Fiske Stone Scholar for three years.

Judge Drain is a fellow of the American College of Bankruptcy and a member of the American Bankruptcy Institute, the International Insolvency Institute, and the National Conference of Bankruptcy Judges. He is a past member and secretary of the Bankruptcy and Reorganization Committee of the Association of the Bar of the City of New York. He is an adjunct professor at St. John's University School of Law's LLM in Bankruptcy Program and has lectured and written on numerous bankruptcy-related topics.

He is the author of a novel, *The Great Work in the United States of America*.



David Peress  
Executive Vice President  
Hilco Streambank

David Peress is Executive Vice President of Hilco Streambank, a specialist in the monetization and valuation of intangible assets including trademarks, patents, and domain names. David has twenty years of experience working in the corporate restructuring and distressed investing industry as both an advisor and investment professional. Until 2000, he was a partner in the bankruptcy department of Wilmington, Delaware's Young Conaway Stargatt & Taylor, LLP. He later served as Managing Director and General Counsel of The Ozer Group LLC, an asset disposition firm, and the Chief Operating Officer of Ozer's Real Estate Services Company. Following the sale of The Ozer Group, he led the special situations investing business for Crystal Capital, a multi-strategy private investment fund. At Crystal Capital, David structured and managed debt and equity investments in several retailers and consumer products companies including Tower Records, The Sharper Image, Polartec, Cranium, Tommy Armour Golf and Bob's Stores. During this time he deepened his understanding of how intangible assets are valued and trade.

David Peress is a graduate of the University of Michigan and the University of Pittsburgh School of Law. He is a member of the Association of Insolvency and Restructuring Accountants, American Bankruptcy Institute, and the Turnaround Management Association, and is a frequent speaker and author on issues related to corporate restructurings and distressed investing.

# INTELLECTUAL VENTURES®

## **Jeremy R. Salesin** **Vice President of Acquisitions**

Jeremy R. Salesin is vice president of acquisitions for Intellectual Ventures. In this role, Mr. Salesin is responsible for managing a global effort focused on acquiring invention rights, and leading a talented team of professionals responsible for assessing, valuing and acquiring patent portfolios from a diverse range of sellers. He is also responsible for further developing Intellectual Ventures' unique acquisition ecosystem involving the company's corporate relationships, channel partners and strategic alliances.

Prior to joining Intellectual Ventures, Mr. Salesin spent 11 years at Eastman Kodak Company, most recently as vice president and managing director of corporate development. At Kodak, he developed strategy with business units for acquisitions and divestitures to deliver on strategic objectives, supervised all worldwide mergers, acquisitions, joint ventures and divestitures, and established and maintained processes for deal negotiation, valuation analysis and due diligence. Before joining Kodak, Mr. Salesin served in a variety of management, business development and legal roles at Silicon Valley companies, including as vice president of business development and administration at GotSavings.com, a pioneer in the provision of rebates and coupons to online shoppers; director of business affairs, general counsel, and secretary for LucasArts Entertainment Company, a global developer and publisher of interactive entertainment software; and vice president of business affairs, general counsel and secretary of Sanctuary Woods Multimedia Corporation, a provider of interactive edutainment and entertainment software. He began his career at the law firm of Graham & James in San Francisco, where he specialized in intellectual property transactions and maritime litigation, after clerking for a federal magistrate.

Mr. Salesin received his bachelor's degree from Oberlin College and his law degree from the University of Michigan Law School, where he served on the senior editorial board for the *Michigan Law Review*. He is a member of the California Bar.

## David Schachter

**DAVID N. SCHACHTER** is a Member of the Sherman & Howard L.L.C. Business Department and heads the Intellectual Property practice group. Mr. Schachter, a Denver native and Phi Beta Kappa, *cum laude*, graduate of the University of Colorado, received his law degree from the University of Santa Clara in 1981. He began his legal career in California's Silicon Valley where he assisted clients in creating, financing, protecting, and transferring rights in technology, copyrights, trademarks and other intellectual property. Mr. Schachter returned to Denver in 1995 and joined the membership of Sherman & Howard in September, 1999. He advises emerging and established businesses on intellectual property and general commercial matters involving both business transactions and litigation. He also provides specialized advice in newly developing areas of law including the Internet and Electronic Commerce. Mr. Schachter counsels the entire range of the firm's client base, from individuals, entrepreneurs and start-ups to the firm's largest telecommunications clients. Mr. Schachter is a frequent speaker and writer on areas of emerging interest in technology, intellectual property and the digital age. He writes the monthly "Legal Bytes" column on technology law for the Denver Business Journal. Mr. Schachter is listed in Best Lawyers in America.

**Sherman & Howard L.L.C.**, established in 1892, is the oldest law firm in Denver. The Firm counsels and represents its clients in most aspects of law affecting businesses and public institutions. More than 160 of the Firm's attorneys currently practice in offices in Denver, Colorado Springs, and Steamboat Springs, Colorado; Vail, Colorado; Phoenix, Arizona; and Reno and Las Vegas, Nevada.