

The Wrinkles of IP Monetization Whether It Is a Threat or Opportunity

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BAKER BOTTS

PARTNER TO THE INNOVATORS





Monetization

The Concept

- Ongoing Business Seeks to Receive a Return from Current IP Assets, Most Often Patents, Through Licensing or Litigation
- Strategy for Ongoing Businesses, Not Just Distressed Asset Sales to Patent Assertion Entity
- Collaboration with Third Parties Is Key Ingredient
- Balances Impact of Activities on Employees, Operations, and Reputation
- Not Seeking to Block Use of IP, Unless as a Step Toward Monetization

Value Proposition for Company Seeking to Monetize IP

- Revenue Potential
- Minimal Business Impact
- Flexible Strategies
- Rapid Results



Process Overview: How Companies Monetize IP

1

1. Identify Opportunities

Begins with an analysis of a company's patent portfolio to identify potential monetization opportunities. Then the company assesses the market landscape and prioritizes high-value targets that align with the company's goals.

2

2. Choose Strategy

Evaluate a range of options, including direct enforcement programs, indirect enforcement partnerships, strategic sales, and hybrid approaches. Select the approach that best fits objectives and resources.

3

3. Implement Strategy

Execute the chosen strategy with a professional, resource-efficient, and relationship-focused approach. Ensure a clear path to a favorable return on investment (ROI).

Identifying Opportunities



Portfolio-Centric Approach



Target-Centric Approach

Potential Strategies of IP Monetization

Direct Enforcement

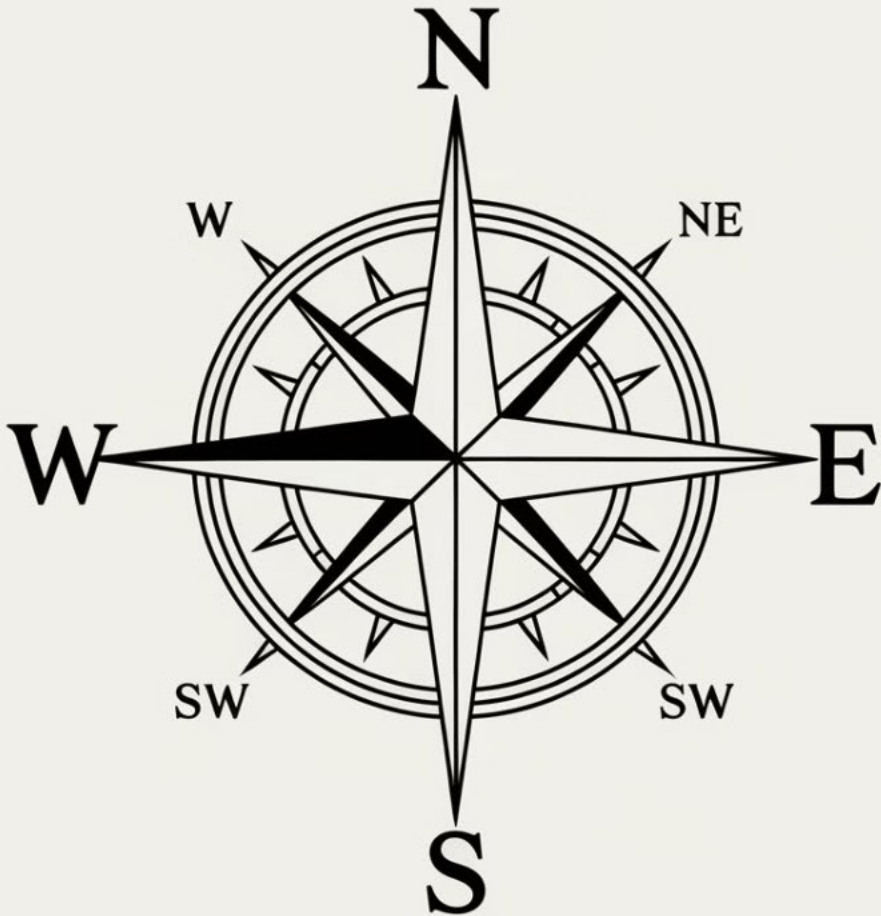
Directly enforce patents through licensing and litigation. This approach gives maximum control over the monetization process, with the potential for the highest returns. However, it requires significant internal resources and expertise to execute effectively.

Indirect Enforcement

Indirectly enforce patents by transferring them to an appropriate entity to handle direct enforcement activities. Partnering with a third-party licensing entity or forming a special purpose vehicle (SPV) offers a balanced strategy. It can protect company relationships while leveraging professional expertise to monetize the portfolio.

Strategic Sales

Selling the patents to a third party can provide immediate returns, but may result in lower total value compared to other approaches. This option requires the least ongoing commitment from the company's team.



Direct Enforcement Options

Structured Licensing Campaigns

Develop and execute a strategic licensing program, targeting potential licensees with tailored offers and negotiation tactics.

Pre-Litigation Enforcement

Send demand letters to identified targets to attempt to reach licensing arrangements outside of litigation

Litigation

Pursue legal action against targets to enforce patent rights create incentives for licensing, and secure damages.

Combined Approaches

Combine these strategies to maximize leverage and achieve optimal outcomes. This could involve using licensing efforts to encourage settlements and to prepare for litigation if it becomes necessary.

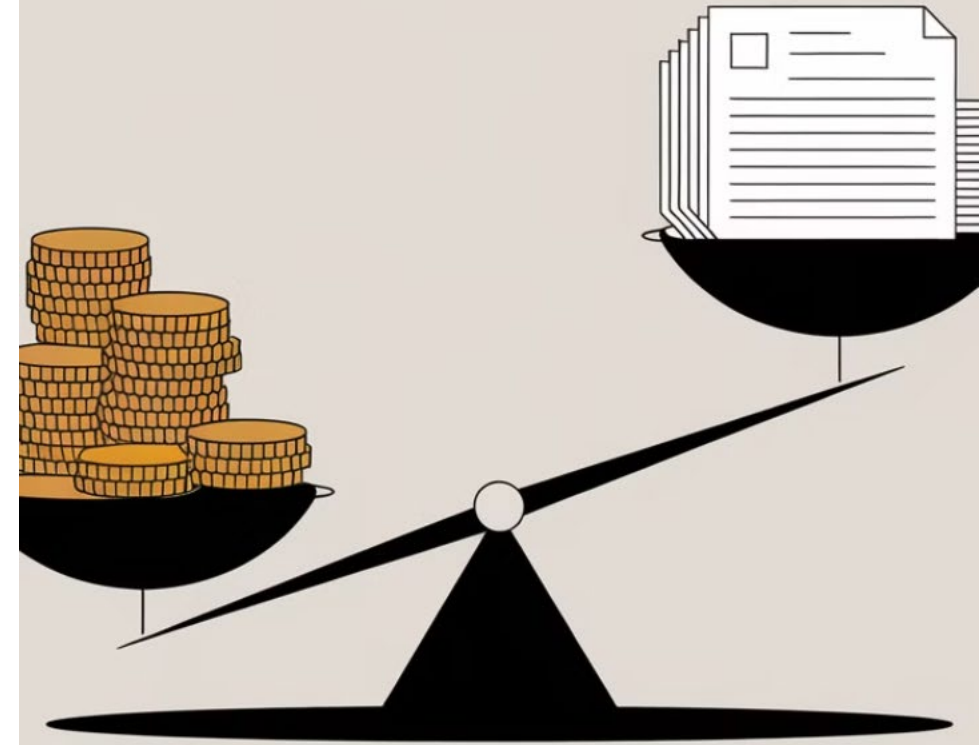
Direct Enforcement: Pros and Cons

Pros

- Maximum Control
- Higher Potential Returns
- Long-Term Value
- Potential Claim for Lost Profits

Cons

- Significant Internal Resource Requirements
- Longer Timelines
- Higher Risk
- Potential Flashback



Indirect Enforcement Options

Create a Special Purpose Vehicle (SPV)

Forming an SPV (also known as an IP holding company) dedicated to enforcing the company's patent portfolio offers a structured approach to monetization. This dedicated entity allows for strategic management, market separation, and controlled execution of the company's licensing strategy.

Partner with a Third-Party Licensing Entity or University

Collaborating with an established licensor provides access to their expertise, market reach, and existing infrastructure, while collaborating with a university comes with clout and prestige. These types of partnerships can streamline the licensing process and potentially accelerate revenue generation.



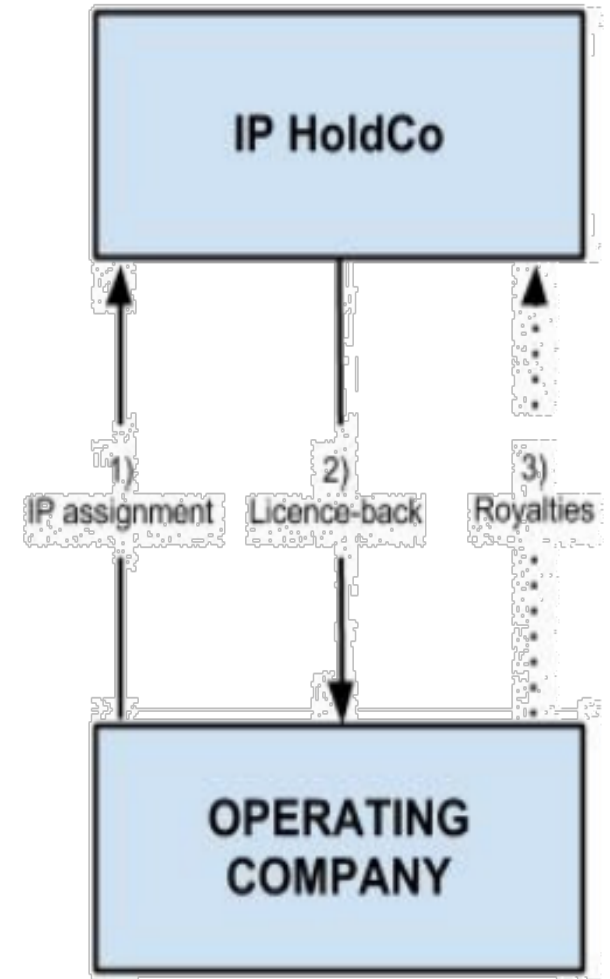
Using an SPV: Pros and Cons

Advantages

- Potential tax benefits
- Streamlined management of IP
- More efficient transaction structures and monetization
- Protects IP from potential risks and liabilities associated with operating companies (e.g., lawsuits, creditors)
- Less risk of flashback

Disadvantages

- Likely cannot recover lost profits
- More difficult to obtain a permanent injunction
- Less control over the lawsuit (although the operating company could get a cut of any payout)
- Potentially weaker brand recognition (and can be viewed as a patent troll)



Assertion Assessment

Strong Infringement Candidates

Product of high value to target

Sufficiently broad claims to cover accused products or processes

Sufficiently narrow claims to avoid prior art invalidity vulnerabilities

Claim language sufficiently supported by specification to avoid indefiniteness vulnerabilities

Claims clearly cover patentable subject matter

Claim diversity (includes apparatus, method, and/or system claims; strong dependent claims)

Patent has survived prior validity challenges

Weak Infringement Candidates

Product of low value to target (small market share, end of life)

Claims too broad (invalidity vulnerabilities: crowded art, anticipation, obviousness)

Claims too narrow (high design-around risk)

Claim language not supported by specification

Claims cover subject matter vulnerable to ineligibility challenges

Litigation Funding

- How does **litigation funding** work?
 - The funder will pay for the attorneys' fees and other out-of-pocket litigation costs for a patent assertion
 - In exchange for this investment, the litigation funder will receive a portion of the recovery from the licensing effort
 - Sometimes the funder receives a *fixed multiple* – i.e., it recovers its investment, plus a multiple of that investment
 - Sometimes the funder receives a *percentage of proceeds* – for example, 20-40% of the total recovery
 - The specific arrangement will depend on the funder's analysis of the strength of the assertion
 - The funded company can reduce its fee risk for the enforcement, but receives a portion of the license fee or judgment



Active Litigation Funding Firm s

Burford

Curiam.


WEST U CAPITAL

 OMNI
BRIDGEWAY

PARABELLUM
CAPITAL

 FINCORP ASSOCIATES

 FORTRESS

*This is only a small selection of some of the litigation funders.

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Exemplary AI Tools to Assist in Assertion



Patlytics is a relatively new company that offers AI-powered tools that can quickly find potential targets and monitor for potential infringement of a specific patent. Patlytics also includes functionality for generating claim charts and pruning IP portfolios.



NLPatent is an AI-powered prior art search tool that can be used to identify patents to potentially assert based on a known target (*e.g.*, competitor)



XLScout offers a Claim Chart LLM tool designed to identify targets for specific patents and generate claim charts mapping target product features to relevant patent claims.

Quickly Building a Robust Patent Portfolio

- **Building a robust patent portfolio within the next 18 months**
 - Focus on volume and patent count
 - File as many patent applications as you can, even if on incremental inventions
- **Track 1 Patent Applications.**
 - Track 1 is prioritized examination at the patent office
 - Fee depending on large or small entity
 - 15,000 applications may be examined under Track One per year
 - A final disposition is typically provided within around twelve months
 - Consider whether there are any continuations to file from new applications or current applications
 - Depending on timing considerations, consider concurrent PCT or bypass continuation with Track One request
- **File patent applications with narrow claims first to further expedite prosecution and then file continuations with broader claims later**
 - This may help to expedite your patent counts.

Monetization:

Plaintiff Standing

- Multiple parties with interest in the IP can create two types of standing problems:
 - Constitutional standing
 - Statutory standing (patents)
- Constitutional standing
 - Cannot be cured (*Minneapolis & St. Louis R.R. Co. v. Peoria & Pekin Union Ry. Co.*, 270 U.S. 580, 586 (1926) (“The jurisdiction of the lower court depends upon the state of things existing at the time the suit was brought.”))
 - Based on the complaint (*Schwendimann v. Arkwright Advanced Coating, Inc.*, 959 F.3d 1065, 1071 (Fed. Cir. 2020) (“As long as a plaintiff alleges facts that support an arguable case or controversy under the Patent Act, the court has both the statutory and constitutional authority to adjudicate the matter.”))



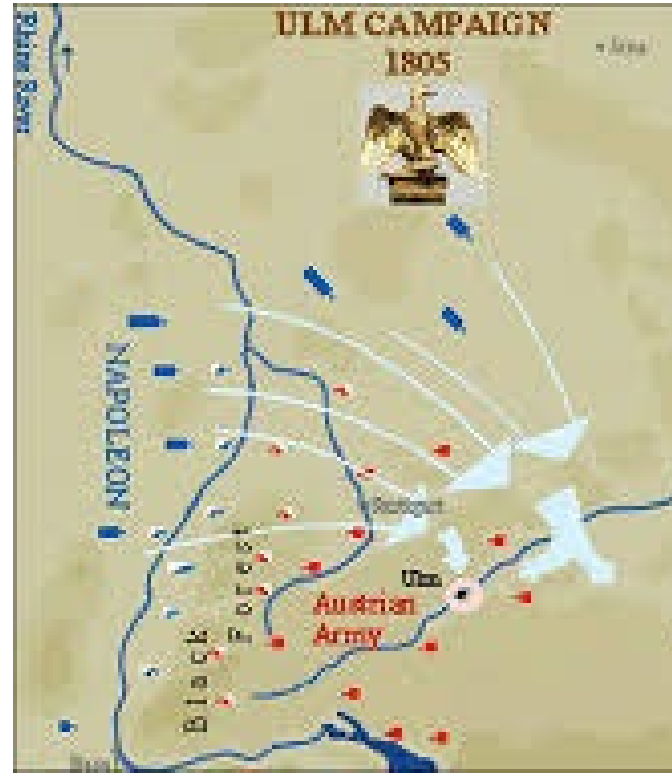
Monetization:

Plaintiff Standing

- Statutory standing (unique to patents)
 - 35 U.S.C. § 281: “A patentee shall have remedy by civil action for infringement of his patent.”
 - To be a “patentee” an entity must possess “all substantial rights under the patent.” *Propat Int’l Corp. v. Rpost, Inc.*, 473 F.3d 1187, 1191 (Fed. Cir. 2007).
 - Examples of required rights
 - Unrestricted right to transfer the patent rights
 - Sole right to exclude infringement in any field of use
 - No temporal limitation on ownership
 - Unrestricted right to sue for damages
 - Allowed limitations include nonexclusive licenses and (maybe) geographically-limited exclusive licenses

Monetization

Decreasing a Patent Owner's Leverage

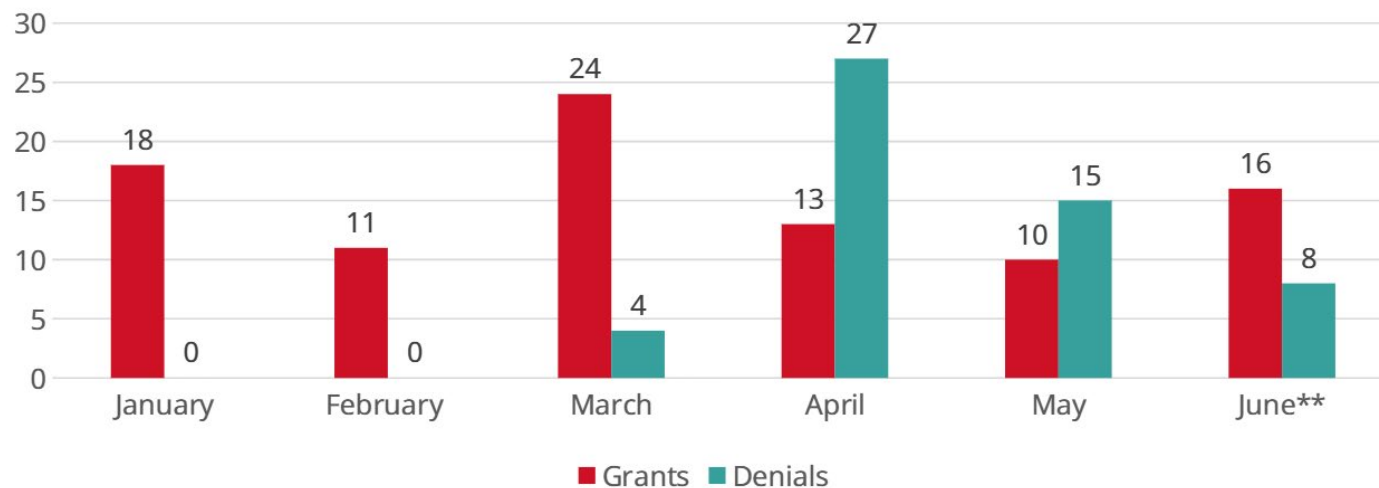


- Most patent owner's would prefer district court only – avoiding multi-front battle
- Since the America Invents Act, the Patent Office can conduct an Inter Partes Review (IPR)
- Set time limits: six months for the Patent Office to decide whether to conduct IPR, then 18 months to complete

- Lower burden of proof: only need to show invalidity by preponderance of the evidence, not clear and convincing
- More equitable discovery burden: mostly experts
- But ...

Monetization Decreasing a Patent Owner's Leverage

Recent Patent Office Decisions Have Rejected Many IPRs



- Patent Office rescinded old standards on February 28
- New standards issued March 24 and March 26
- SAP and Motorola (with many amici) have petitioned the Federal Circuit to challenge the new standards

Monetization:

Ethical Requirement to Protect Privileges

- Lawyer representing IP owner should consider whether privilege can apply to confidential materials/documents shared with third parties



“The burden of determining which communications are privileged and which communications fall outside the scope of the privilege rests squarely on the party asserting the privilege.” *In re Queen's Univ. at Kingston*, 820 F.3d 1287, 1301 (Fed. Cir. 2016)

- Attorney-Client Communication Privilege is often waived when materials are shared with a third party
- Some courts have applied the Work Product Privilege to protect shared materials

Monetization

Avoiding Waiver of Attorney- Client Privilege



- Executive Summary: IP Owner Faces An Uphill Battle

- Three common exceptions to waiver: agency, common interest doctrine and functional equivalence

- Agency allows sharing with those necessary to effective representation. *U.S. v. Kovel*, 296 F.2d 918, 921 (2d Cir. 1961).
- Common legal interest - different than commercial? *Miller UK Ltd. v. Caterpillar, Inc.*, 17 F. Supp. 3d 711, 732 (N.D. Ill. 2014).
- Must be functionally equivalent to a client employee. *Upjohn Co. v. United States*, 449 U.S. 383, 390–94 (1981).

Monetization

Leveraging
Work-
Product
Immunity

- Significant majority of Courts addressing the issue have protected analysis of claim under work-product immunity



Mondis Tech., Ltd. v. LG Elecs., Inc., 2011 WL1714304 (E.D. Tex. May 4, 2011); *John Doe v. Society of Missionaries of Sacred Heart*, 2014 WL1715376 (N.D. Ill. May 1, 2014); *Morley v. Square, Inc.*, 2015 WL7273318, at *2 (E.D. Mo. Nov. 18, 2015)

- Signed NDA was an important factor for many courts
- Funding agreement itself was not always protected

Monetization

Complying
with Judicial
Disclosure
Orders –
Avoiding
Sanctions

Standing Order of Chief Judge Colm F. Connolly (D. Del.):

IN THE UNITED STATES DISTRICT COURT

FOR THE DISTRICT OF DELAWARE

STANDING ORDER REGARDING
THIRD-PARTY LITIGATION FUNDING ARRANGEMENTS

At Wilmington on this Eighteenth day of April in 2022, it is HEREBY ORDERED in all cases assigned to Chief Judge Connolly where a party has made arrangements to receive from a person or entity that is not a party (a “Third-Party Funder”) funding for some or all of the party’s attorney fees and/or expenses to litigate this action on a non-recourse basis in exchange for (1) a financial interest that is contingent upon the results of the litigation or (2) a non-monetary result that is not in the nature of a personal loan, bank loan, or insurance:

Monetization

Complying with Judicial Disclosure Orders – Avoiding Sanctions

- **Disclose**: identity of funders; any approval authority for litigation/settlement decisions; brief description of Funder's financial interest
- Nim itz Technologies challenged the disclosure requirement as covering “highly confidential litigation-related information, including materials protected by the attorney client privilege and work-product immunity.” *In re Nim itz Techs. LLC*, No. 2023- 103, *4- 5 (Fed. Cir. Dec. 8, 2022)(non precedential)
- The district court provided that Nim itz was “free to submit and to publicly file at the time of its production of the records in question an assertion that the records are covered by the attorney-client privilege and/or work product doctrine and a request that for that reason (and perhaps other reasons) the Court maintain the records under seal.” *Id.*
- The Federal Circuit denied a petition for writ of mandamus. *Id.* (“Nor has Nim itz shown a clear right to preclude *in camera* inspection under these circumstances.”)



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