



AMERICAN
BANKRUPTCY
INSTITUTE

2022 Consumer Practice Extravaganza

Monetizing Soft Assets: Lessons for Trustees and Bankruptcy Lawyers

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Monetizing Soft Assets

Lessons for Trustees and Bankruptcy Lawyers

The Program will begin shortly



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Monetizing Soft Assets
Lessons for Trustees and Bankruptcy Lawyers



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Intellectual Property

Historical Perspective



Patents



1474
Venice

1624
UK Statute of Monopolies

1790
First U.S. law, first U.S. patent

1793
New Patent Act

Thomas Jefferson:

"Any new and useful art, machine, manufacture or composition of matter and any new and useful improvement on any art, machine, manufacture or composition of matter"

US Patent Law Basis

Constitution, Article 1, Section 8, "...to promote the Progress of Science and useful Arts, by securing for limited Times to Authors and inventors the exclusive Right to their respective Writings and Discoveries"

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Intellectual Property

Historical Perspective



Patents



1836
Patent office, staffed by professionals, with review of applications from any inventor

1952
Refined criteria: "new, useful, and non-obvious"

- 20 years from date of filing (previously 17 years from issue date)
- Right to exclude, not a monopoly (monopoly = exercise of market power through manipulation of supply or demand)
- Patents offer possibility of injunctive relief

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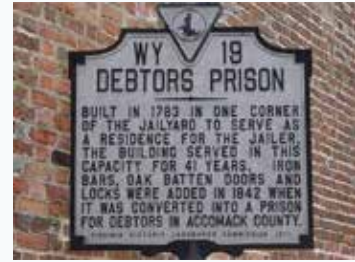
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18th Century:

19th Century:

Bankruptcy And Poverty

Historical Perspective



Debt shifts from moral (personal, including repayment extending to the physical body of the debtor) to impersonal market relations

- Innovations include assignability of notes and bonds
- Insolvency shifts from "sin" to "failure"; from moral to economic

Risk-taking becomes more acceptable, and is the cornerstone to America's economic growth

- Many speculative ventures (canals, rail), and cycles of boom and bust
- Bankruptcy laws were passed, but also repealed as creditors felt they were too lenient on debtors

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Late 19th Century:

- Era of independent inventors – thousands of Americans get patents, many start businesses, many fail
- From 1880s on, larger firms (e.g., rail, electricity) buy up the IP from independent inventors, or acquire it after they fail
- Some independent inventors used modern approaches. Edison's "talking doll" was sold by a separate company he established (Edison Toy Phonograph Company) to find new uses for a miniaturized version of his wax reel phonograph. Heavy and scary, they sold poorly (and suffered from returns), and the company was closed. Edison went on to other successes.



Edison Talking Doll (1890)

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7

20th Century:

Late 20th / Early 21st Century:

Rise of industrial R&D (corporate owned IP)

- WWI & WWII: Governments expropriate IP or prevent patenting in key strategic areas
- IP after bankruptcy mostly unused or abandoned (not enforced)
- New approach of speculative IPOs e.g., Tucker, whose car had numerous safety and design innovations later adopted more widely (and some not, such as the directional headlamp) – all assets auctioned in 1950 after Tucker was acquitted of fraud



Tucker 1948

Re-emergence of independent inventors, growth of startup economy

- Innovations in bankruptcy (assignment on behalf of creditors)

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Failure & IP

Historical Perspective



AT&T Picture phone, 1970 (\$27 for 3-minute call; \$160/month subscription)

1

Failure is inevitable, especially in technology-intensive fields

- Technology before its time
 - Too clunky
 - Inability to build out support system fast enough to meet consumer needs
- Failure on the Market
 - Mismatch with consumer needs
 - Poor marketing or pricing; failure to distinguish product as innovative
 - Business plan failure: undercapitalized / too much debt



Atari & 1982-83 video game industry crash

2

Valuing IP is challenging; patents ≠ trademarks

- Enforcement period (patents expire, trademarks require proof of use)
- Majority of patents do not become products on their own; even experts in the art may not know how patented technologies interrelate until a product is finalized
- Lack of public information on patent transactions (licensing, sales)
- Trademarks have longer lives (potentially) and can be used for future product lines

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Bankruptcy Law Promotes Innovation:

"In countries characterized by debtor-friendly bankruptcy law, the level of risk acceptance among entrepreneurs is higher, which is reflected in higher levels of entrepreneurship and innovation."

Prusak, et al., Impact of Bankruptcy Regimes on Entrepreneurship and Innovation. Is there Any Relationship?, 18 Int'l Entrepreneurship and Management J. 473 (2022).

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Intellectual Property

- Intellectual property (IP) may be a patent, trademark, copyright or trade secret. Patents are governed by the federal Patent Act (35 U.S.C. §§ 1 et seq.) and issued by the United States Patent and Trademark Office (USPTO).
- Patents may be a utility patent for a novel machine, manufactured item, composition of matter (mixture) or process or a design patent.
- A utility patent may be a useful improvement (addition) to prior art (e.g., prior patents).
- So the ownership or licensing in of more than one patent may be needed for a business to operate. Also, there is value in having any relevant patent that blocks potential competitors.

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Bankruptcy

Typically, initiated by voluntary petition in federal bankruptcy court, and for chapter 7 liquidation, a trustee is appointed by Office of United States Trustee, a part of the U.S. Department of Justice. The trustee seeks to maximize liquidation proceeds to pay any secured creditors, administrative expenses (including trustee and professionals' fees) and general unsecured claims.

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Intellectual Property Becomes Property of the Bankruptcy Estate:

IP may be a saleable, valuable asset: "There is little question that a debtor's patents, trade secrets, copyrights and trademarks are property of the estate. Difficult questions arise in bankruptcy when security interests in intellectual property, licensed interests in intellectual property, infringement and misappropriation claims and awards relating to intellectual property rights are at issue." Eric E. Bensen, in *Intellectual Property in Bankruptcy: A Collier Monograph* § 2 (2012).

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Schedules and SoFA May list IP:

The Debtor will file a Statement of Assets and Liabilities and a Statement of Financial Affairs (SoFA) on official forms:

1

Schedule A/B

IP is checked in item 59 box and listed in 60, and licenses and royalties in 62, and for each its net book value, valuation method and current value. Infringement claims against others are listed in 74 or 75, with current value.

2

Schedule D & E/F

IP that is loan collateral is listed in Schedule D (and may be in "all assets" collateral), and unsecured claims against debtor for infringement or breach of a license are listed in Schedule F.

3

Schedule G

Licenses as licensor or licensee that are executory (i.e., with obligations owed on both sides) are listed in Schedule G.

4

SoFA

Infringement and other litigation by or against the Debtor is listed in item 7.

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Legal Aspects of Monetization

- May be by sale of IP, possibly including the assumption and assignment of licenses in and out, and/or royalties owed or due in the future, and/or sale or settlement of infringement claims against third parties.

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Bankruptcy Sales

- Sale of IP is similar to the sale of other assets and may be part of the sale of a going-concern business.
- Generally, the sale will be free and clear of liens and other interests under section 363(f) of the Bankruptcy Code, with such liens and interests attaching to the proceeds of the sale.
- The proposed sale is generally subject to higher and better offers.

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Licenses and Royalties

- Licenses may be executory contracts (if obligations are owing on both sides), which, depending on circumstances, may be rejected, assumed or assumed and assigned.
- However, non-exclusive licenses are generally not assignable without consent because they are considered personal to the debtor under section 365(c)(1) of the Bankruptcy Code.
- Also, rejection of a debtor licensor's license entitles the licensee to elect to continue using the IP so long as it pays royalties and agrees not to setoff its claims pursuant to section 365(n) of the Bankruptcy Code.



For a discussion of the failed sale of licenses to a pre-petition secured party that involved (a) no scheduling of them; (b) the deemed rejection of them under section 365(d)(1) of the Bankruptcy Code 60 days after the cases converted to chapter 7s (even though the trustees did not know of them where they were not intentionally concealed); (c) the lack of assumption and assignment of them because they were deemed rejected; and (d) the court's decision not to enforce an order that included entitlement to the licenses due to their deemed rejection, see *RPD Holdings, L.L.C. v. Tech Pharmacy Services (In re Provider Meds, L.L.C.)*, 907 F.3d 845 (5th Cir. 2018), cert. denied 139 S. Ct. 1347; 203 L. Ed. 2d 570 (Mar. 18, 2019).

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Infringement Claims

Buyer might not have standing under Patent Act if it does not also own the patent.

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Discharge

Infringement must be willful and malicious for discharge to be denied under section 523(a)(6) of the Bankruptcy Code. However, there is no discharge in a company's liquidation in any event.

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ABC Alternative to Bankruptcy:

- Consider an Assignment for the Benefit of Creditors (ABC), which is a state law analog to bankruptcy in which the Debtor gets to choose the Assignee of its assets.
- Often used for technology companies with IP-based business to be sold as a going concern, or just for the sale of the IP itself.

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Evaluation of Assets & Concerns

- Minimal time to extract value/know-how from debtor, "if you don't use it, you lose it!"
- What assets does the company have?
- Asset(s) Convertibility: Assets to Cash; What is their Physical Existence, Tangible or Intangible? What is their usage?



Additional unknowns...



Maintenance fees



Rights/requirements that need to be maintained



Know-how, IP Applications, Assets with partners

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Technical Expertise & Redeployment

- Who are the technical experts of the IP? Are they value contributors?
- Will it require inventors or technical experts to exercise or restart the IP?
- Are there valuable relationships or contracts that are not transferable and thus erode value of the assets? Are there preservation opportunities?
- Are there former insiders interested in the Assets?

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Monetizing the Assets

Understanding the market:

1. CIFIUS / ITAR
2. Security Interests
3. Is there any litigation in the industry or infringement on the assets?
4. Are there alternative uses
5. Revenue

Targeting Buyers:

1. Claims
2. Industry
3. Offensive/Defensive Litigation
4. Licensing and Sale
5. Consortiums

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2022 CONSUMER PRACTICE EXTRAVAGANZA

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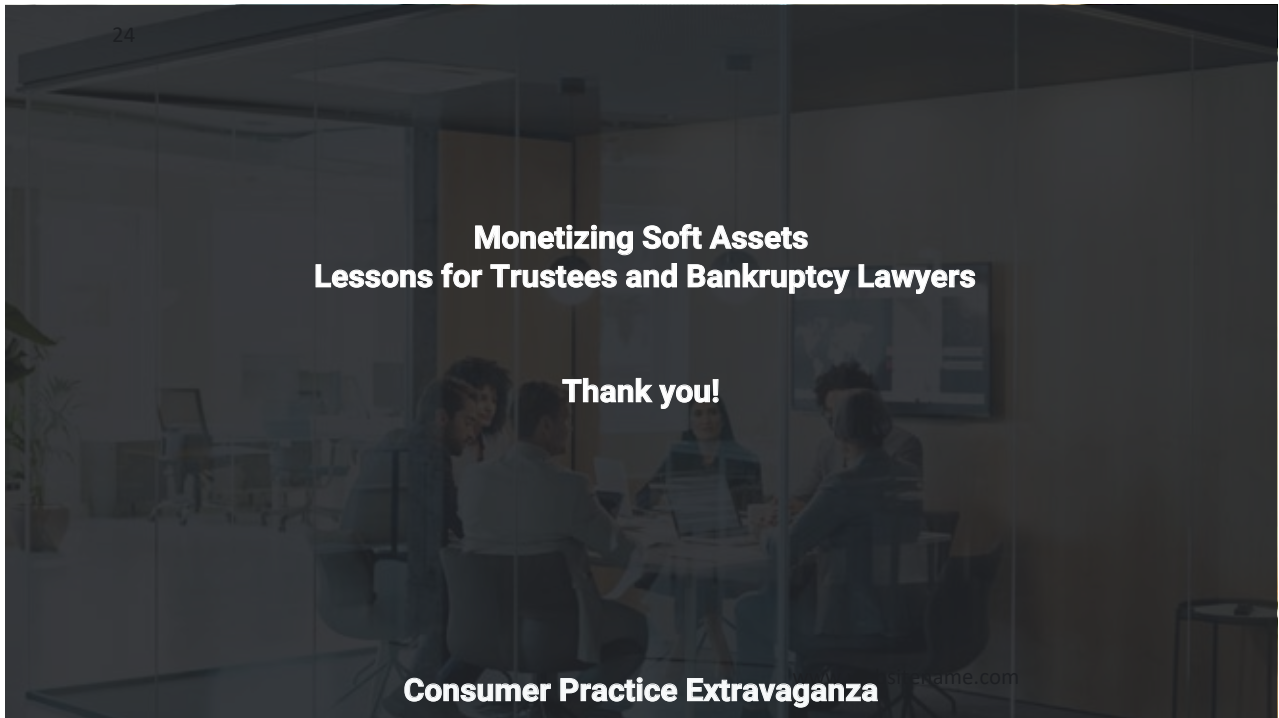
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Faculty

Dr. Arthur A. Daemmerich is the director of the Smithsonian Institution's Lemelson Center for the Study of Invention and Innovation in Washington, D.C. Located at the National Museum of American History, the Center carries out research on invention and innovation through history, leads invention education programs to activate the next generation, and creates exhibits that engage some 4 million museum visitors annually. Dr. Daemmerich has led research projects analyzing pharmaceutical innovation and regulation, chemical risk and health care systems, and is currently researching sports technology governance. He has published in the fields of science and technology studies, history of technology, and business policy. Previously, Mr. Daemmerich was an associate professor at the University of Kansas Medical Center, a visiting professor of business administration at the China Europe International Business School, an assistant professor of business administration at the Harvard Business School's Business, Government, and the International Economy Unit, a visiting assistant professor at the University of Pennsylvania's Department of History and Sociology of Science, and a director at the Science History Institute. He is a frequent writer and lecturer and has sat on the board of the American Institute of the History of Pharmacy. He also received the Dibner Award for Excellence in Museum Exhibits from the Society for the History of Technology. Mr. Daemmerich received his B.A. in history and sociology of science and German literature from the University of Pennsylvania in 1991, and his M.A. and Ph.D. in science and technology studies from Cornell University in 1996 and 2002, respectively.

Joshua Pichinson is the managing director of agencyIP in Mountain View, Calif., which represents creators and owners of intellectual property (IP) in the areas of sales, licensing and strategy. He also is managing director of Sherwood Partners Inc, agencyIP's sister company, which provides business advisory services to the venture capital, private-equity, legal and financial communities. Mr. Pichinson oversees clients' IP sales, marketing, licensing and strategy requirement, and he is responsible for the intercompany process improvement and strategy for both firms. He is experienced in the monetization of IP in going-concern businesses as well as bankruptcy and restructuring. Mr. Pichinson has been with Sherwood Partners for more than 10 years and is actively involved in due diligence associated with licensing and sales of IP, as well as the wind-down efforts of companies with significant intellectual property assets. He specializes in maximizing the value of both intangible and tangible assets. Mr. Pichinson is an active speaker on the subject of IP and for the past four years has been on the world's leading 300 IP Strategists list and recognized in *IAM Strategy 300*. He received his B.S. in business administration with an entrepreneurial emphasis from Chapman University.

Martin Pichinson is co-founder and co-president of Sherwood Partners, Inc., a financial advisory firm in Los Angeles, and a board member of the Lemelson Center. He is also a managing member of agencyIP, which he founded in 2013 and to represent owners and creators of patents, trademarks and copyrights. Mr. Pichinson has expertise in assignments for the benefit of creditors (ABCs), IP monetization, restructuring and crisis management. He brings more than 50 years of experience as a business adviser and has a long history of managing and working with management teams and growing companies. Mr. Pichinson has been published and is quoted in numerous periodicals, such as *The Wall Street Journal*, *Business Credit*, *Institutional Investor's Journal*, *Journal of Private Equity*, *Venture Capital Journal*, *The Economist*, *Business Week*, *The New York Times*, NPR, *TechCrunch*,

The Washington Post and *Fortune*. He received his B.A. in 1969 in marketing and advertising from Columbia College Chicago.

Robert M. Saunders is a bankruptcy and transactional attorney with Pachulski Stang Ziehl & Jones in Los Angeles and has a broad national practice experience. His expertise includes chapter 11 reorganizations and sales, out-of-court workouts, debt/equity financings, corporate and real estate transactions, entity structure and governance strategies, employee and union matters, and litigation. Mr. Saunders represents debtors, committees, creditors, acquirers, trustees and examiners in bankruptcy cases. He counsels lenders and borrowers in restructuring troubled domestic and international debt and equity investments, and structures new money transactions to reduce bankruptcy risk. Mr. Saunders has extensive experience litigating and negotiating with governmental agencies, including the U.S. Environmental Protection Agency (EPA) and the Pension Benefit Guaranty Corporation (PBGC). He litigated and negotiated a hard-fought settlement of more than \$3.2 billion in superfund claims with the EPA and major paper-makers, resulting in no liability for his paper-making client, and drafted and confirmed a contested chapter 11 plan (and resolved appeals), providing meaningful distributions to the client's creditors. He also settled claims and negotiated the assumption of retiree plans with the PBGC and unions, resolving pension and retiree benefit liabilities in three mega-chapter 11 cases. Mr. Saunders has negotiated and closed billions of dollars of debt, equity and municipal financings for lenders, investors and borrowers. He counsels financial clients investing in complex commercial real estate projects and private companies. As a title agent in Florida, Mr. Saunders wrote multi-million-dollar policies to facilitate real estate closings. He also successfully closed the first issue of stripped mortgage-backed securities issued by a federally chartered mortgage association and the first issue of uncertificated tax-exempt securities by a state. Mr. Saunders is listed in the 2018 and 2019 editions of *The Best Lawyers in America* for his work in Bankruptcy and Creditor/Debtor Rights/Insolvency and Reorganization Law and Litigation - Bankruptcy. He is admitted to practice in California, New York and Florida. Mr. Saunders received his J.D. in 1983 from the University of Chicago Law School.