

blog

More details of the Nortel patent auction revealed - Ericsson led the Rockstar consortium

There's a buzz around this year's [annual meeting of LES USA and Canada](#) as delegates contemplate the possibility that, at last, their time has come. After so long waiting for IP to start taking centre stage in corporate thinking, it may now be happening. Certainly, those who were in a packed room this lunchtime to [hear the thoughts](#) of six individuals who were closely involved in the Nortel patent sale would have left the session feeling very confident that major change is on the way. Indeed, one of the panellists, [Kasim Alfalahi](#) – the chief IP officer at Ericsson, a company that formed part of the winning Rockstar consortium at the June auction of the bankrupt company's patents – stated that in future we would talk about BN and AN: Before Nortel and After Nortel.

For his part, [David Descoteaux](#), who led the team at Lazard, the investment bank overseeing the bankruptcy, believes there has been what he called “a fundamental shift” in the way the investment community and corporations see IP. They are now viewing it as an asset, he stated, that has value independent of the way it enables the businesses of those who own it. As a result companies are going to have to understand exactly what IP they have and the different options there are for maximising its worth: all music, no doubt, to the ears of listening licensing professionals.

The Nortel session had been keenly anticipated, but before it started there were rumours that several of the topics that were to be discussed would have to be jettisoned for legal reasons relating to final clearances for the purchase not having yet been given. However, although a number of potentially fascinating conversation points were not touched on, there was still quite a bit of new information and insight provided by the panel. In addition to Alfalahi and Descoteaux, this comprised [David Berten](#) from Global IP Law Group (debtor IP adviser), [David Kaefer](#) (general manager of IP licensing at Microsoft), [John Veschi](#) (chief IP officer, Nortel) and [Mike Lasinski](#) of 284 Partners (creditor IP adviser), who is also president of LES USA and Canada.

Here are a few of the highlights that I picked out:

- One of the keys to the final success of the auction was the lack of encumbrances attached to the portfolio. Veschi said that before he joined Nortel in 2008 he did due diligence and was “blown away” by how few encumbrances there were in what was a high quality portfolio. Lasinski said he had a similar reaction when he looked at what was there.
- While the IP people at Nortel understood the potential value of the portfolio, explaining that to the myriad parties involved in the bankruptcy process was a major challenge and one that involved a great deal of education. However, they did grow to understand and this enabled the bankruptcy sale to be structured in an unusual way. Normally, Descoteaux explained, the default position is that when you are selling off operating parts of a bankrupt business a broad set of patents are included in the transaction. However, in the Nortel case it was decided to look very carefully at which IP would go to the buyers of individual units of the company and which would not. This meant that after these divestitures a very attractive portfolio remained. Without specific IP input, it is unlikely that this would have been the case.
- A lot of preparation work was done before Lazards and Global IP Law Group went on the road to pitch the portfolio to potential buyers. Because of the specifics of bankruptcy law there were worries about just how much could be revealed about encumbrances and through claims charts. Again, a long process of education was needed before all the parties involved in

the bankruptcy were able to agree to the sales pitch Global IP and Lazards wanted to make. Even then, very lengthy NDAs were necessary before detailed information could be shared with potential bidders.

- Descoteaux said that generally speaking things tend to move quite slowly in the IP world: transactions can take years to finalise, as can litigation. However, up against the definite deadline represented by the auction date, parties interested in the Nortel portfolio were able to act quickly – due diligence was done in weeks rather than over the many months that would usually be the case. Potential buyers were, stated Descoteaux, very active in getting done what was necessary.
- Kaefer explained that all the members of the Rockstar consortium probably had different reasons for wanting to bid for the Nortel patents. He did not expand on these, except to say that for Microsoft it was a case of wanting to acquire significant assets in the telecoms space, an area which up until now it has not really focused on, but which does form an important part of future planning. One of the biggest challenges Microsoft faced was in assessing the patents precisely because there is no great in-house telecoms expertise at the company. For that reason, the help given by outside advisers was invaluable.
- The portfolio had been on Ericsson's radar for quite a while, explained Alfalahi. The company had [already purchased](#) a Nortel business and had seen what was still on the table. The patents were important, he said, and not getting involved in their acquisition was not an option. That said, it was a difficult task to persuade senior management of the worth of what was on offer because there were no royalty streams to show them. They took some convincing, so education was very important and involved showing what could be done with the patents if Ericsson owned them: the licensing opportunities as well as the defensive value. It appears that Ericsson actually led the original Rockstar consortium, meaning that it was the driving force in putting it together - even if it did not contribute most to [the final sum paid](#).
- The auction process itself drove value as it was so transparent. At the end of each round of bidding, everyone knew whose bid was in pole position, how much had been offered and under what terms. In addition, Lazard was able to control who partnered with whom, so ensuring that companies could not just get together to kill the bidding process and freeze the price. The priority, said Descoteaux, was to ensure partnerships that created the maximum competitive tension. However, Alfalahi made clear that it was the portfolio itself that was the most important thing of all. If the patents had not been interesting, they would not have fetched the price they did.
- In response to the suggestion that the winning Rockstar consortium was essentially nothing more than an NPE, Kaefer stated that at this stage no final decisions have been taken as to what will happen to the assets involved – though he did acknowledge that Microsoft works with NPEs such as IV and Acacia when the circumstances are right. He also stated that all the parties which practise the Nortel patents will want to transact that value at some stage.

As I say, these are just a few bullet points – there was plenty more beside. The overall message I got from the session was that without the early and detailed input of specialist IP advisers, the Nortel auction may not ever have happened, let alone raised the amount that it did. Demonstrating the potential value to the non-IP parties involved in the bankruptcy was hugely important, but there was also a significant level of education needed on the buy-side too: after all, you can't just spend hundreds of millions or even billions of dollars on patents without C-suite clearance; and what does the C-suite really know about patents?

The Nortel auction was a one-off that is unlikely to be repeated. However, it did open the eyes of many to patent potential. The task now, of course, is to carry on educating so that those outside the IP bubble understand that not every portfolio is worth billions of dollars. When other sales do not make the amounts that Nortel did that education is going to be very important. But in this new AN world something has changed. People that could not have cared less about IP six months ago, now want to know all that they can. Opportunities that were not there now exist. It is time to make the most of them, while keeping feet firmly on the ground.

Sectors

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