CEO CFO

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The Most Powerful Name In Corporate News and Information

RPX Corporation is Breaking New Ground in Bringing to Market a Patent Risk Management Services Business as Opposed to a Patent Litigation Business

Services
Business Services
(RPXC-NASDAQ)

John A. Amster
Chief Executive Officer and Co-Founder

BIO:
John A. Amster is the CEO and co-founder of RPX Corp. Prior to co-founding RPX, Mr. Amster was the General Manager of Strategic Acquisitions and Vice President of Licensing at Intellectual Ventures, responsible for strategic acquisitions of patent portfolios as well as developing the software and e-commerce licensing programs.

Before joining IV, Mr. Amster was Managing Director and founded the M&A Advisory practice for Ocean Tomo, completing several important transactions in the early patent market, including the sale of Commerce One. Prior to joining Ocean Tomo, Mr. Amster was Vice President and Secretary at InterTrust Technologies, where he worked on intellectual property transactions, merger and acquisition activities, and late-stage financing activities, including the sale of InterTrust to a Philips-Sony joint venture for $453 million.

Mr. Amster began his career as an associate at Weil Gotshal & Manges, where his practice included mergers and acquisitions, equity investments, venture capital financings, intellectual property licensing, and patent litigation.

Mr. Amster received his JD from Benjamin N. Cardozo School of Law and his BA from Middlebury College.

Mr. Amster frequently speaks on patent litigation matters at various industry conferences and in the media. He has been recognized in The American Lawyer's 2010 review of "The 25 Most Influential People in IP" and in Managing Intellectual Property magazine's "The 50 Most Influential People in IP."

Mr. Amster is active in non-profit volunteer work as President of the Board for Lone Mountain Children's Center, and serves on the Board of Trustees of Town School for Boys.

Company Profile:
RPX Corporation (Nasdaq:RPXC) is a leading provider of patent risk solutions, offering defensive buying, acquisition syndication, patent intelligence and advisory services. Since its founding in 2008, RPX has introduced efficiency to the patent market by providing a rational alternative to litigation. The San Francisco-based company's pioneering approach combines principal capital, deep patent expertise, and client contributions to generate enhanced patent buying power. By acquiring patents, RPX helps to mitigate and manage patent risk for its growing client network.

Interview conducted by:
Lynn Fosse, Senior Editor
CEOCFOinterviews.com

CEOCFO: Mr. Amster, what was the vision when you founded RPX Corporation and where are you today?
Mr. Amster: The vision was to create a more rational patent market. Today the patent market is marked by 50% transaction cost. Virtually half of every dollar a company spends is on outside legal counsel, and we don't think that makes sense. We think that by creating a scalable business model that enables all companies that face patent risk to pay a reasonable amount of money, we can make the market more efficient.

CEOCFO: How has that worked out so far for RPX?
Mr. Amster: We think it has worked out quite well. Our client network is the largest and fastest growing client network in the patent market. We have grown the business both top and bottom line, and very nicely in a very short period of time, so we are quite pleased with our process. As of the end of last quarter we had 95 clients. All of the public financial information on us is readily available. We did nearly $100 million in revenue last year. We are profitable. And we are going to grow the top line very nicely in 2011. Therefore, both from a market standpoint and from a financial standpoint, the company has done exceptionally well and we are just barely 3 years old.

CEOCFO: Why has the patent market changed and how do your services play in?

Mr. Amster: There are a lot of reasons why the patent market has changed, but if you had to focus in on one or two things it's the volume and ways in which technology are incorporated into business today. More companies are using more and more technologies in their business. Let me give you two simple examples. One is a smartphone, which is very different from what a phone was 15 years ago. Today a phone is essentially a computer that can connect to the internet, do email, has a touch screen, and plays music. It does all sorts of things that people did not really envision 15 or 20 years ago. Another example would be a brick and mortar company like a Barnes & Noble that today is selling a wireless device called the Nook. There are many examples like that of companies that employ more and more technologies in their business than they did years ago. What that means is more and more companies are exposed to a large volume of patents they did not have exposure to many years ago and that has created a variety of business models around forcing and monetizing patents. That is the primary way in which the market has changed.

CEOCFO: Is there a particular type of client that RPX would work with, a particular dollar range or particular industry niche; or is it across the board as patent is a patent?

Mr. Amster: We work with companies broadly defined in the information technology area -- from the semiconductor up to any business that does something on the Internet, and is going to have some exposure to this wealth of patents that are out there. Part of the fundamental vision of the business is that you need a business that can address that whole market broadly, because they all face the same risk. Therefore, they should have a common platform on which they can try to address it and lower the risk. We have been very successful in our network of nearly 100 companies having them be spread nicely across all of the different technology areas. Again, broadly defined in information technology, because there is a lot of overlap in the way that these companies face risk. It is quite common to see a software company sued along with a financial services company, like an investment bank. In terms of size, there are thousands of companies that face patent risk, ranging from Fortune 50 companies down to start-up companies. Again, it is important to have a platform that can basically take in all companies that face patent risks in order to have something that is truly effective.

CEOCFO: What have you developed in software or experience process that enables RPX to really handle the breadth and depth of patents? What is special about RPX?

To date, we have deployed over $300 million buying patent rights. We have resolved over 20 litigations on behalf of our clients resulting in the dismissal of over 160 defendants from litigation. Basically it is scaling quite well. We are delivering a return on the investment of the subscription fee to our clients in the form of avoided legal cost and avoided settlements of patents. - John A. Amster

Mr. Amster: What is special about RPX is several things. One is the business model. We have created a business model that aligns our interests with our clients so that they can trust us. Because they trust us and we have that trust of such a large group of companies, the amount of proprietary data we are able to have and understanding the dynamics of the patent market, give us a very large competitive advantage. Number two, we actually have developed the tools that enable us to monitor the patent market more efficiently than others, both in terms of what patents are for sale and litigation. In addition, we are able to track all the data on the patent market and benchmark it with the proprietary data that we have, and that gives us an advantage as well. Those are the two primary things that we developed that we think create pretty large barriers to entry for anyone trying to do what we do in this market. The last thing is we believe we have the best team in the market in terms of experience in every aspect of the patent market as it has developed over the last 10-plus years. That enables us to bring to bear into every transactions that we do, a set of skills that most companies except for some of the larger ones, would not have internally on their own. For example, if we are looking at a patent deal, we are not just looking at it from a patent perspective. We are also looking at it from a corporate perspective and asking questions like, "Are there tax advantages that we can come up with by applying some interesting structure?" The basic transactional skills that we can bring to bear give us a big advantage as well.

CEOCFO: What is the revenue model for RPX?

Mr. Amster: The core service that we offer is that clients pay us an annual subscription fee. That fee -- $60,000 to $6.6 million -- is based upon the size of the client. We use the aggregate of all of the fees to go out and buy as many patent rights as we can to take them off the market and thereby insulate our clients from the threat of patent infringement litigation. To date, we have deployed over $300 million buying patent rights. We have resolved over 20 litigations on behalf of our clients resulting in the dismissal of over 160 defendants from litigation. Basically it is scaling quite well. We are delivering a return on the investment of the subscription fee to our clients in the form of avoided legal cost and avoided settlements of patents.

CEOCFO: Are most companies aware of patent problems and the need for a specialist such as RPX or is it an education process?

Mr. Amster: It still is an education process. One of the big challenges we have is educating the C-suite as opposed to talking just to the IP-suite. One of our views is that the IP-suite tends to make the patent problem a legal one and we believe that the patent problem is a market problem, not a legal problem.

CEOCFO: Would you expound on that please?

Mr. Amster: To some degree, there is an agency conflict that has historically existed in the patent space, which is when you have a patent problem you call a lawyer that charges you by the hour. Because of that, there has been 50% transaction cost in this market and we do not think that is necessary. One of the things that the C-suite generally believes is that patents are highly technical and they are all unique. Therefore, you need to bring in legal expertise in order to understand patent issues. However, we just do not believe that is the case. Just as with an M&A transaction, where you can value a company based on metrics that are based on things like GAP financial statements, which are huge levels of abstraction of what a business actually is, we think that you can do the same thing with patents. You can learn a lot about a patent without having a lawyer look at it, without spending $250,000 dollars to get a legal opinion on the patent. There is a lot you can learn about a patent by the objective factors and levels of abstraction around it, and demystifies decision making around patents. In other words, you do not need a lawyer to make a decision on what to do with a patent case; you need a good business person with data. That is one of the things that we are trying to accomplish, which is to create some transparency of data in the market so that business people can make decisions without having huge legal costs to do so.

Secondly, the transactions of buying and selling of them as an asset, like a home or something. We do not go to court every time we want to buy a home. In the patent space, generally you use lawyers for the most part to negotiate price and transactions, which is very different than any other asset that you would buy, whether it is a company or a home. The argument is that patents are again highly technical and unique, therefore, you need to do this detailed legal analysis, because it's legal title that you are trying to assess the value of it is, what the scope of, and you need a lawyer to do so. However, you do not need a lawyer to do so with other assets and we believe that patent can be treated the same way. As an example if somebody called you and said there is a house for sale in a neighborhood where you want to buy a home, they can tell you what the offering prices is, the square footage, the number of bathrooms, or which block it is on. That creates an environment where, without ever seeing the house you can have a good sense of whether or not that is going to be a fair price for the asset. So with transparency of data, you can go a long way with patents to be able to do the same thing and without having to incur large legal costs to make decisions about what is an asset. If you have the appropriate data you can treat it just like you treat every other asset.

CEOCFO: RPX Corporation has recently become a public company; why was this the time?

Mr. Amster: A wise venture capitalist once said -- and it is apocryphal now because they have all said it, but some people attribute it to Kliner -- that, "you raise money when you can, not when you need it." We are in a growth mode. Things are going well. There was a market opportunity to take the company public. So we took it. We thought that it made a lot of sense for RPX to be a public company. What we are doing is quite new. We have only been around for three years, but we are trying to change the way that people think about a market that has existed as long as our country's constitution. Therefore, we thought it was important to have the credibility of being a public company; not to mention the fact that we are fundamentally an acquisition business and we think it's beneficial to not only our ability to grow the business and execute, but from a credibility factor. Having a strong balance sheet is important for our clients.

From a business standpoint, we are growing rapidly. We were profitable and have all the business fundamentals that you want and need to have to go public in a reasonable way were there as well. We had the opportunity, and the reason we had the opportunity was because there is a large addressable market. We are running the business quite well and we have grown it quite nicely, and we have done so profitably. I think it's pretty clear from the last three years that we are very good stewards of the capital that we raise.

CEOCFO: How do you reach potential clients?

Mr. Amster: The traditional way. The IP community is generally very small, so it is not usually very difficult to get into a company that we want to talk to. But generally speaking, we manage our sales pipeline by the level of patent risk that a company faces. We think a good proxy for that is the number of litigations they face from non-practicing entities. We refer to these litigation factories as non-practicing entities or NPEs. Therefore, we manage our pipeline by the frequency with which companies get sued by these NPEs and that market is quite big. There were right around 1,500 unique companies that were sued by NPEs last year alone. There are over 250 of them that have been sued on average more than once over the last several years, so the market is quite large. Using that data it is fairly easy to understand how we should manage our pipeline.

CEOCFO: Is the investment community paying attention in general?

Mr. Amster: They certainly are paying attention to patent space a lot more than they were three or four years ago. We see that in the growth of companies that are in the IP space. There are some public companies, mainly NPEs, but you can see that in the attention they have received over the last several years. Our business model is quite different than anybody else prior. We believe that we are breaking new ground in bringing to the market a patent risk management services business as opposed to a patent litigation business.

CEOCFO: What surprised you most as you have developed the business?

Mr. Amster: What surprised me most is lack of surprise. It is always risky to use a sports analogy, but to some degree, the management team and I feel a little bit like a pitcher pitching a no hitter. You kind of feel at some point there is going to be a hit. We have had very few surprises in our business so far and I think we are waiting for what the surprise is going to be. We had fairly unprecedented growth in such a short period of time. We are only a 3-year-old company and in our second full year we did almost $100 million in revenue. It is very hard to point to another company that has had that type of rapid growth. We have been very accurate at predicting how the business was going to grow. In addition, we have been very successful at operating to a profitable plan. So that is the thing that was most surprising is that what we told our venture investors more than three years ago we would do, we basically have done.

CEOCFO: In closing, why should potential investors pay attention to RPX Corporation, and what might people misunderstand about the company that they should now?

Mr. Amster: People should understand that we are about patents being an asset class that is going to get more valuable. We are not about buying patents that we are going to sit on and in ten years they are going to be the proverbial Rembrandt in the attic and then we are going to be able to make some huge multiple off of that. Quite the contrary; what we are about is, given how many patents there are and given how many companies face patent infringement litigation risk, they need to be treated as an asset class -- more like a commodity. This is really critically important. iI we are not right about that, the impact on technology businesses -- the businesses that rely on technology -- could be massive. It is a zero sum game. If people think that they can make more and more money over time on patents by asserting them and litigating them, that money comes out of real R&D, it comes out of jobs, and it comes out on technological advances that can bring new products to the market. Therefore, we think what we are doing is quite important because by lowering the cost to our clients, that is money that they save that can be used to do R&D, that can generate new products and services, that can create jobs. And that can be good for our economy. We think that the patent space is important. NPE litigation is a many billions of dollars a year annual tax on companies that make and deploy technology. We want to help lower that tax.

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