

11 Dec 2020 What Zoom’s meteoric rise tells us about start-ups and patents

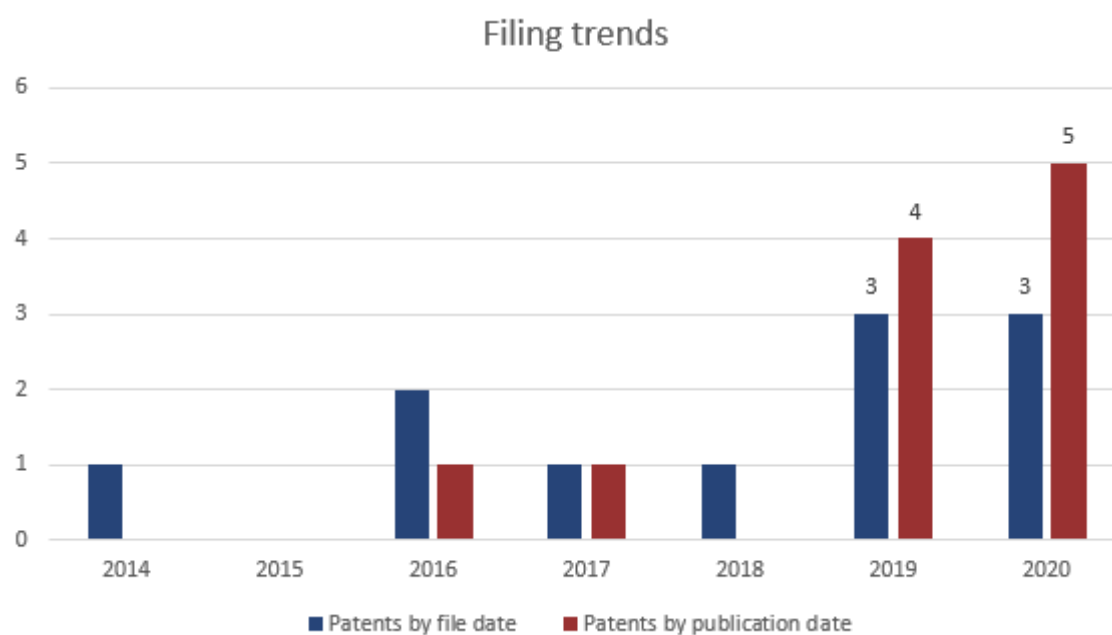
Being a big tech company is not the same as being a big patent player. We have seen this in the past and we see it now with Zoom. It’s a risky position to be in when surrounded by opportunistic licensors

Zoom is a Silicon Valley success story. Its valuation [passed](#) the \$1 billion mark in 2017 and when it went public in 2019 its shares increased 72% to reach a market capitalisation of \$16 billion. Demand for its services skyrocketed when the pandemic struck, translating into [\\$623 million in revenue](#) for FY 2020 and an incredible [504% stock jump](#). But while Zoom has taken off as a business, its patent portfolio is playing catch-up.

The company has 11 active patent assets to its name, according to research conducted using [Anaqua’s AcclaimIP](#). Of these, six are grants and five are applications, all of which are for coverage in the United States. The average age by publication date of the portfolio is 1.23 years. Zoom filed its first patent in 2014, with activity increasing in the year of its IPO (see figure 1).

It’s [not uncommon](#) for highly valuable start-ups to have a small number of patent assets and, in some cases, none at all. When LinkedIn hit revenue of nearly \$1 billion it only owned 22 patents. Today, though, its portfolio looks very different thanks to [strategic growth](#) between 2012 and mid-2016 focused on building a viable counter-assertion portfolio. Slack, one of Zoom’s competitors, which was just [purchased](#) by Salesforce for \$27.7 billion, also has a relatively small portfolio. It owns 191 active patent assets, 97 of which have been granted.

Figure 1: Zoom’s filing activity: patents by file date vs publication date



Source: Anaqua’s AcclaimIP Analytics Software

A high-profile tech company with deep pockets and a small portfolio is potentially a sitting duck. “As Zoom gains market attention more companies that run licensing programmes start to take notice,” says Erik Oliver, chief operating officer at [Richardson Oliver Insights](#) (ROI). “We’re talking about businesses like Qualcomm, Ericsson, Nokia, Xperi and IBM, and this is where having no patents becomes a problem.”

Companies become aware of the absence of a meaningful patent portfolio when they are approached by one of these players, as there is nothing of value to offer in a cross-licence agreement, explains Oliver. If Zoom should become a target of a corporate asserter, it could be out millions in royalties.

An infringement suit is another way that industry heavyweights could challenge Zoom, especially given that Cisco and Google are direct competitors with their WebEx and Meet products, respectively.

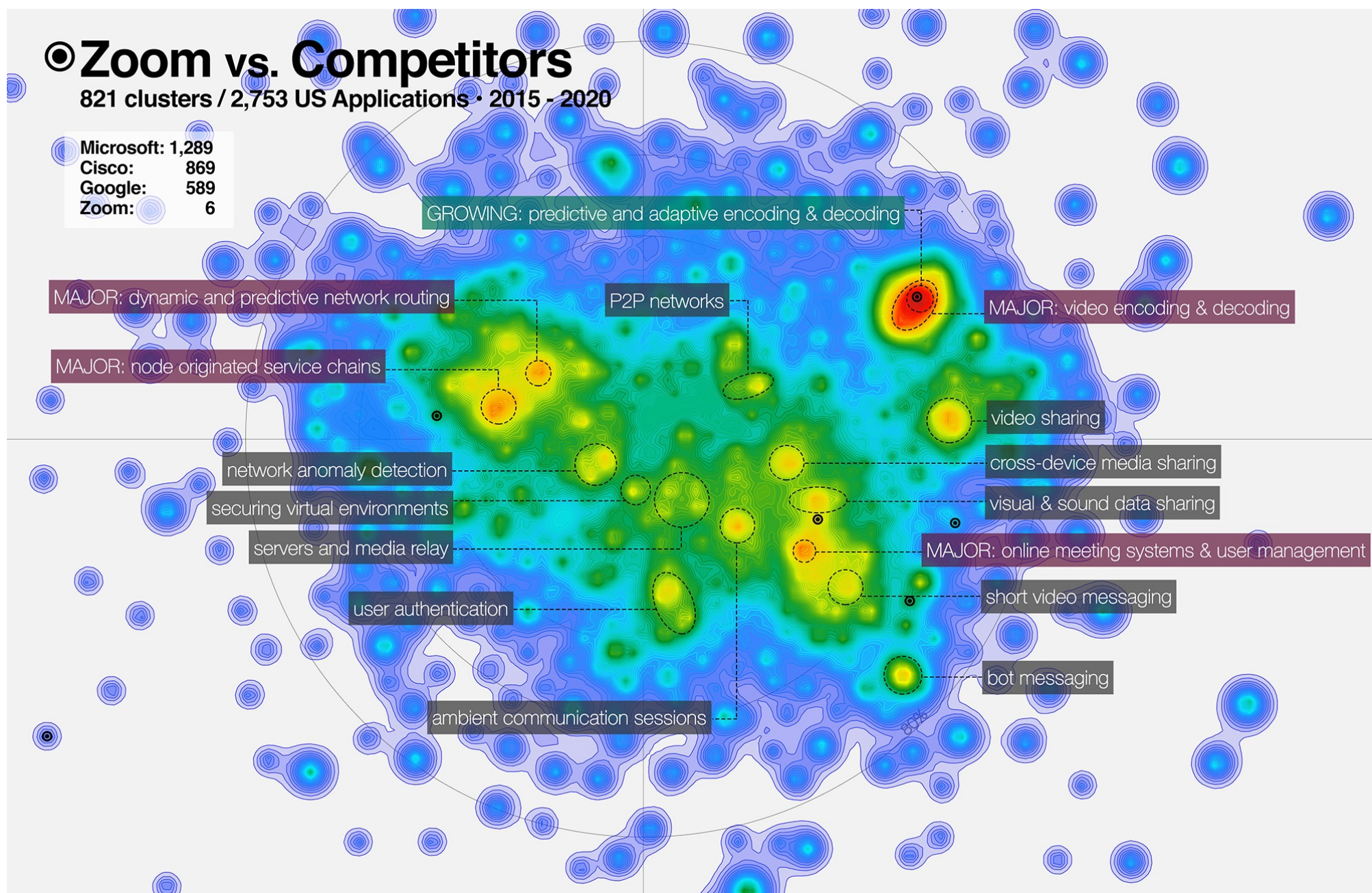
To understand the risk of litigation, [Valuenex](#) created a portfolio landscape of Zoom’s rivals. The team mined the full text of six of Zoom’s US applications. With this information it targeted relevant technology in Google, Microsoft and Cisco’s portfolios (retrieving patents with H04N or H04M or H04L as the primary IPC – which are the main codes covering Zoom’s filings) from 2015-2020, thereby giving us an idea of each player’s position in this field and of any overlap in their portfolios (see figures 2 and 3).

One of Zoom’s applications stands out due to its location in a large cluster with 28 other filings that is dominated by Microsoft, with a handful of Cisco patents in the mix. This cluster is in a growing area which sits inside of a major one – meaning it can be considered as a highly competitive R&D field more prone to litigious claims. The Zoom application in that cluster is 20200235860 *Adaptive Screen Encoding Control*, and Microsoft closely surrounds it with 20190098310 *Adaptive Skip or Zero Block Detection Combined with Transform Size Decision* and 20170006283 *Computationally Efficient Sample Adaptive Offset Filtering During Video Encoding*.

Another four of Zoom's applications sit in smaller clusters and outside key areas, but they are still in close proximity to Google, Microsoft and Cisco's filings. Notably, Zoom's application 20200304644 *Method and System for Facilitating High-Fidelity Audio Sharing* is positioned completely on its own in the bottom far left region of the landscape, indicating that this is the most unique technology in the portfolio, and the least likely for litigation.

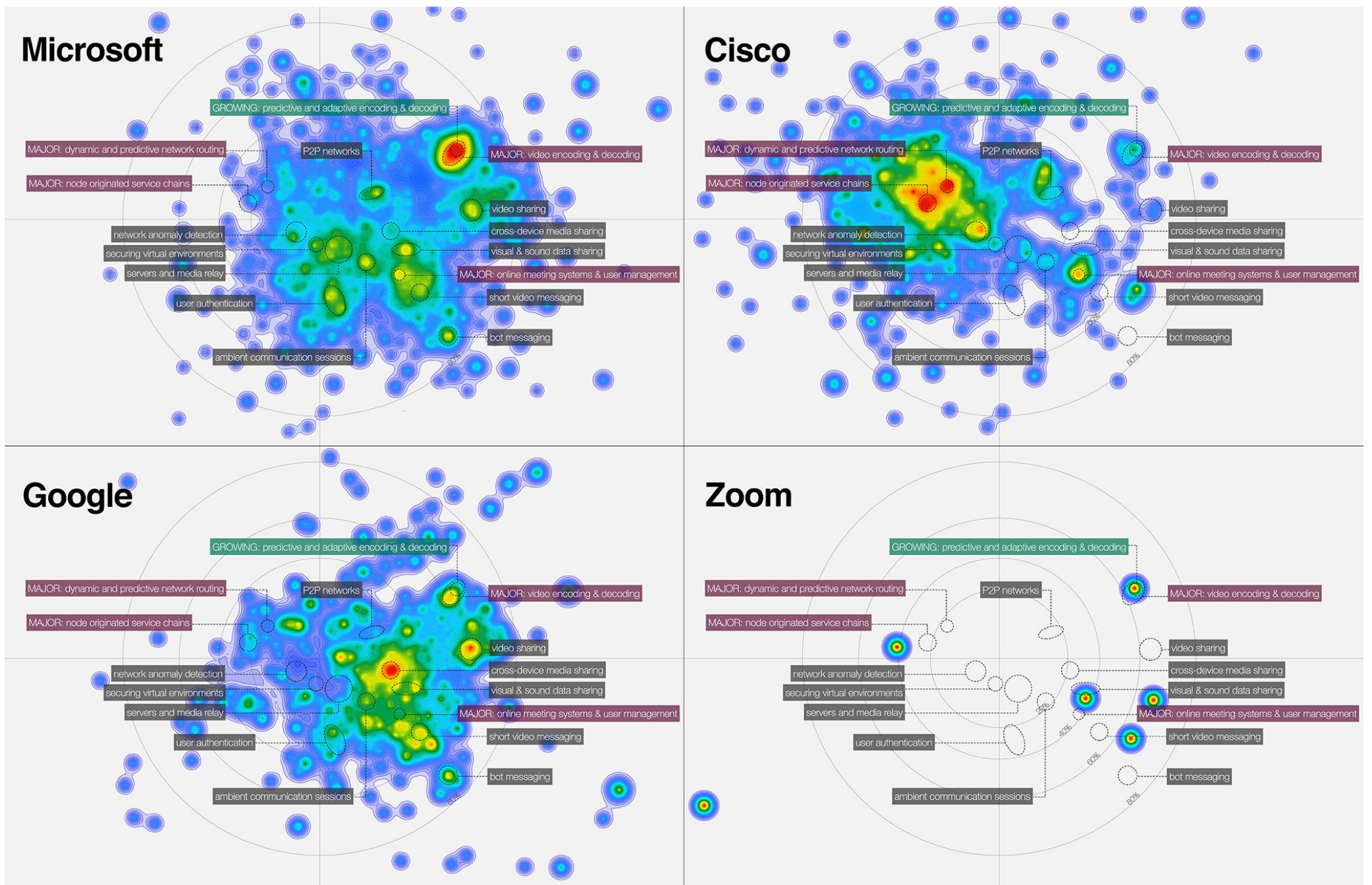
Even though there is the possibility for a corporate to go on the offensive against Zoom, this does not guarantee that it will happen. Oliver sees litigation from an operating company as a far lesser risk given that big tech is often philosophically opposed to massive patent actions.

Figure 2



Source: VALUENEX; see full size image [here](#)

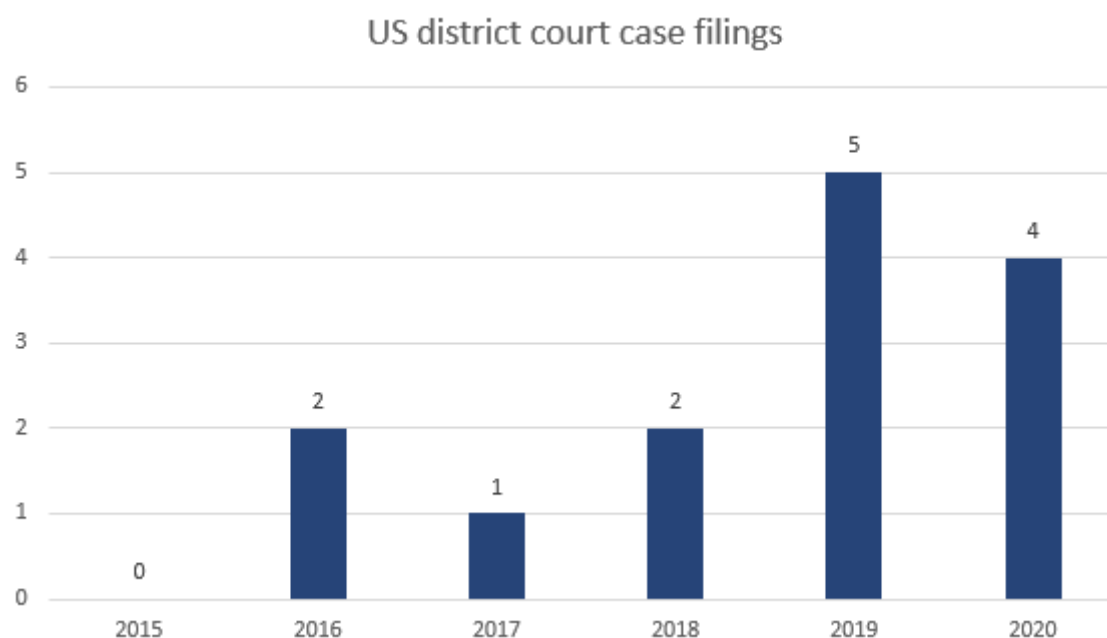
Figure 3



Source: VALUENEX; see full size image [here](#)

One threat that is already on Zoom’s radar is the risk posed by NPEs. The video-conferencing company has been a party to 14 US district court cases since 2016. It has been the defendant in each instance, according to data pulled from [Lex Machina](#) (see figure 4). Every single lawsuit is part of an NPE-led campaign (see table 1). Prominent PAEs like Kaleasy Tech, Coretek Licensing, Hublink and Naraka feature in the list of plaintiffs, among others. Although Amazon Web Services and Amazon.com appear this is because of how their case is recorded. It was actually an NPE that filed the suit and Amazon then countersued.

Figure 4: Zoom US patent lawsuits: timeline



Source: Lex Machina

Table 1: Parties opposed to Zoom

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| Party | Type | Cases opposed to Zoom |
|--|------|-----------------------|
| Cedar Lane Technologies Inc. | NPE | 2 |
| Level 3 Communications, LLC | NPE | 1 |
| PersonalWeb Technologies | NPE | 1 |
| Uniloc Luxembourg SA | NPE | 1 |
| Amazon Web Services, Inc. | OpCo | 1 |
| Rothschild Broadcast Distribution Systems, LLC | NPE | 1 |
| Naraka Intellectual Property, LLC | NPE | 1 |
| Meetrix IP, LLC | NPE | 1 |
| Hublink LLC | NPE | 1 |
| Visible Connections, LLC | NPE | 1 |
| Wave Linx LLC | NPE | 1 |
| Krush Technologies, Inc. | NPE | 1 |
| Kaleasy Tech LLC | NPE | 1 |
| Amazon.com, Inc. | OpCo | 1 |
| Coretek Licensing LLC | NPE | 1 |
| Uniloc USA, Inc. | NPE | 1 |

Source: Lex Machina

IAM says:

Before we get into what this week's data means there are two caveats that Oliver points out.

- Zoom may not have many assets, but its organic portfolio is growing.
- There is always the chance that the company is buying patents and putting them in an unknown vehicle that we are not aware of.

Now let's get to what we do know. Zoom is a typical Silicon Valley start-up and like other young tech companies it does not have a substantial patent portfolio. But why is this continuously the case? "If you think about patents like fire insurance, for those who have never had a fire, not buying fire insurance was a great idea," says Kent Richardson, CEO of ROI. "It can be difficult to sell fire insurance to someone who has never had a fire. So, in my experience, companies often have a big patent suit or two, before they believe in having patents."

While patent practitioners may understand how much can be saved in the long-run by ensuring freedom of action and freedom to operate, it may not be on the minds of c-suite executives. That is especially so when they're focused on maintaining growth and keeping shareholders happy, as is Zoom after analysts [started questioning](#) post-pandemic momentum.

Investors are worried that growth won't continue at the same level in 2021, which is pushing the stock down, but should the state of its portfolio also be a consideration? Share price and market value are always viewed through a financial lens. Shareholders and Zoom's higher-ups are unlikely to be losing sleep over the state of the company's patent collection, but maybe it should be of greater concern given the loss they could suffer should a big dog flex its muscles.

In October we saw [10% of Ocado's share price wiped](#) off after AutoStore Technology [sued it](#) for patent infringement. The lesson may be that a "better safe than sorry" patent approach will not help your stock price much but being caught off guard can definitely diminish its value.