



From the brink to the bank

For a variety of owners, selling patents is considered off limits. Some, however, are beginning to take a more pragmatic view and they are finding a growing number of willing buyers

Are IP rights the new commercial paper? That is what a prominent Washington patent attorney suggested to me recently. Patents are now being used to capitalise acquisitions, as well as to defray the costs of licensing programmes, R&D activities, filing fees and legal work. Buying or selling rights to uncommercialised inventions is emerging as a surprisingly effective method of strengthening a portfolio and supporting business goals.

Some believe that patent transactions are an overlooked arrow in the patent owner's quiver. In the interest of full disclosure, for a little over two years Brody Berman has been acting as an agent to a handful of patent buyers and sellers. Patent brokerage is not something that we pursue; it seeks us. It started when interested patent owners, usually directors of IP or licensing executives, began coming to us informally asking if we knew where they might acquire certain types of patents. What interests them more than anything is discretion.

For those willing to discuss their objectives, acquisitions are primarily to shore up their portfolio for defensive purposes. The sell side is a lot simpler: these owners are looking to extract cash from patents they are not using, are not likely to need and, in many cases, have already sunk significant funds into. They are becoming less shy about using rights to capitalise business activities. Occasionally, it is to build a war chest for a licensing programme. I am continually surprised at the number and diversity of parties who want to acquire patents, including those in private equity. If our experience is any indication, the connotation of failure once associated with divesting or acquiring patents appears to be waning.

Patent buyers

A few companies have been active purchasers of patents for decades and have programmes in place to acquire them. Telecommunications and pharmaceutical companies are among the most active. Sometimes they buy direct from a seller or create an entity for the purpose of

the acquisition. It is important to distinguish between those who want to take a licence from those interested in acquiring a small family of patents. Licensees typically desire the right to practise proven inventions; purchasers want patents for different reasons, which they usually are unwilling to discuss. It may or may not involve practising the patent.

A patent purchaser may be looking to shore up its portfolio for defensive purposes, or could be interested because it is preparing to launch a licensing programme or infringement suit and is concerned about counter assertions – that is, patents with some value, but which may no longer be relevant to the current owner. By aggregating patents – using acquired rights in conjunction with those they have previously acquired or plan to – smart portfolio owners can erect longer, stronger and less porous patent fences. Most buyers realise they can expect to see mostly B and C patents – that is, patents with value to some, but that may be worthless to the current owner. Few owners would put their A or core patents on the market, and most buyers would not want to pay the premium for them. To borrow a term from finance, there is an arbitrage in skillfully acquiring, repackaging and deploying IP rights with an eye towards their greater value. In a few cases, speculators are able to resell or flip purchased patents quickly at a substantial profit because they know who needs them. Sounds like the Manhattan real estate market to me.

Who are the sellers?

Sellers can be patent owners of any size or type, including universities, creditors' committees in bankruptcies and independent inventors. Traditionally, no one wanted someone else's cast-off rights to what were (and often still are) considered failed inventions. Bigger companies tended to view selling patents as foolish because of their vast potential, and feared that those sold could come back to haunt them in the form of assertions against their customers or cross-licensing partners, or, even worse, by patent trolls. (Many buyers will provide sellers and their clients with a licence to practise, but may not indemnify a seller's customers on patents they do not practise.) Smaller companies or independent inventors, for example, can realise fast cash from selling a small family of patents. US\$1 million or more is

not uncommon for as few as six of the right rights. On occasion, patent applications may be marketable at a small premium to filing and prosecution costs.

Patents are expensive to obtain and maintain, and especially costly to enforce. In addition to the R&D, filing and prosecution fees, there are translations, foreign filings and maintenance fees. These are, of course, negligible if the patent is associated with a successful, commercialised invention. However, how many patents are successful? According to industry experts, fewer than 5%, and as little as 1%, of most IT companies' patent portfolios have value. They are not just talking about royalty-producing patents but also strategic ones that protect market share or profit margins.

With this in mind perhaps 45% of a company's portfolio is probably necessary to maintain for defensive purposes or for possible future products. That leaves about 50% of most portfolios with orphan or unrelated patents (the figure may be somewhat lower in certain industries). The cost to maintain those unrelated patents, not counting the R&D associated with them, could be in the tens of million of dollars. Triaging those patents certainly would save money, but selling a few of them before they lapse, even at low market rates, would generate several millions of dollars, with no downside risk (FACT: approximately two out of every three US patents lapse because of failure to pay maintenance fees).

Are CFOs and boards of directors faithfully representing shareholders' interests when it comes to managing patents for profits, or is their refusal to sell an emotional response to issues they do not fully understand? One wonders.

In the next IP Investor: Good news for sellers: competition among buyers means better pricing

Bruce Berman is President of Brody Berman Associates in New York, where he works closely with IP owners and advisers. He edited and contributed to *From Ideas to Assets – Investing Wisely in Intellectual Property* (Wiley), and is at work on a new book about the business of innovation. BBerman@BrodyBerman.com