

# Patent auction fails to match hype but no-one is complaining

**All the right people attended the first open auction of patents held in San Francisco in April. The problem was, not many of them ended up bidding. But next time it could be different**

Despite the open bars in two corners of the room, huge silver punchbowls filled with cans of Red Bull energy drink and an auctioneer straight from the British edition of *Antiques Roadshow*, the pace of bidding at OceanTomo's 6th April patent auction in San Francisco was anything but giddy. Perhaps patent auctions are still a little ahead of their time.

OceanTomo, a Chicago-based merchant bank, presented what was billed as "the world's first live, multi-lot patent auction", with 78 lots of US patents up for bid. For the movers and shakers of the intellectual property world, the two-day event was the place to be and be seen. As former US Patent Commissioner and current head of IP at GE Q Todd Dickinson said, "all the right people are here". However, even their presence failed to generate the prices anticipated by the pre-auction buzz.

Attendees included lawyers from most of America's major firms, who might or might not have been bidding on behalf of undisclosed clients, and officials from a number of US and international corporations. Lindsey Adams of Morristown, New Jersey's Pitney Hardin said many of his firm's Japanese clients were surprised about and interested in the auction. "They're concerned about someone coming out of the woodwork with a patent and suing them for infringement," he said. However, other than Ho Lee, the chief technology officer of Korea's LG Electronics, very few auction attendees would

acknowledge they had come with the purpose of buying.

It appeared that most potential bidders either kept their purses tightly closed, or only bid on the cheap for patents ostensibly valued in the millions of dollars. Auctioneer Charles Ross announced that for lot after lot, either no bid came in or the bid was below the reserve minimum price. All told, 52 lots did not sell during the auction itself, including five telecom patents on which the lead inventor was none other than OceanTomo President and Chief Executive Officer James Malackowski. The 26 lots that did sell brought in a total of US\$3.026 million. However, activity continued after the auction so that by 11th May, OceanTomo was able to announce that five more lots had been sold, bringing the total to 31, with a combined sale price of close to US\$8.5 million.

Patent owners offered a wide range of technologies up for bid, including a stretchy film that could be used in disposable nappies (diapers), a method of making a low-calorie salad dressing, a system for on-line fashion shopping and even a method of folding a sheet of paper. The pre-auction estimate of the latter's value was between US\$100,000 and US\$500,000, but the top bid of US\$65,000 did not meet the reserve price.

The big ticket item was a patent for movie distribution through consumers' television sets. Inventor Doug Ballantyne of Ottawa, Canada, said he read about the auction in Canada's

*Financial Post* and decided to submit his '079 patent for bid. He made the decision so late that the patent was listed only in the supplemental catalogue, but the right bidder saw the listing and paid US\$1.4 million. The patent issued back in 1992; Ballantyne said there was little interest early on because the technology required a separate very large hard drive, then an expensive item. With the advent of cheaper hard drives, his technology has proved to be much more interesting for those wanting to get into the video-on-demand business.

A patent for a flash memory module sold for US\$950,000 and a patent related to smart-card technology went for US\$95,000. Otherwise, most sales were in the US\$2,000 to US\$10,000 range, hardly the stuff of fevered bidding.

The event was held at San Francisco's Ritz-Carlton Hotel with the auction itself the culmination of two days of workshops, luncheons, cocktail receptions and an awards dinner. The dinner was keynoted by Kevin Rivette, whose seminal book *Rembrandts in the Attic* may well have provided the

initial impetus for growing interest in IP asset management. Awards were given for the "best" patents up for sale, based on a patent rating system developed by OceanTomo's Jonathan Barney. Several household-name corporations submitted patents for auction, including Kimberly Clark Corporation and The Clorox Company. Some of the others came from the National Institute for Strategic Technology Acquisition and Commercialization (NISTAC), a non-profit technology-transfer organisation headquartered at Kansas State university.

The day before the sale, auctioneer Ross presented an auction tutorial for would-be bidders, promising that the procedure would be "transparent" and that sellers would not be permitted to bid on their own lots for which they had set a reserve price. He also assured bidders that no one would be at risk of bidding by accident "when you scratch your nose". He acknowledged that he did not know "a great deal" about patents.

"I think we've engineered

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Patent auction: bidding around the million mark

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failure out of the equation,” Malackowski predicted. His definition of failure would be “for people to walk out of the room saying patents can’t be sold at auction”. The bidding was open to all comers, including so-called patent trolls. And Malackowski said he would have absolutely no sympathy down the road for those who failed to bid on patents that might later be asserted against them “If you didn’t get off the fence [and bid], we don’t ever want to hear you complain about patent trolls again,” he said.

Daniel McCurdy, who heads Clinton, New Jersey’s Think Fire intellectual property licensing firm, said he “didn’t care” whether some of the purchasers were trolls who would buy in order to assert the patents

against others. The asset class represented by patents “has a desperate need for the liquidity afforded by this process,” he said. “Even if this auction isn’t a financial success, it’s a huge first step in building a mechanism to provide liquidity.”

Many of the unsold patents did receive a low-ball bid of only US\$10,000 from a potential buyer who was not in the room. Several attendees speculated that the bidder was tight-lipped Intellectual Ventures of Redmond, Washington, headed by former Microsoft chief technology officer Nathan Myhrvold: earlier this year Myhrvold told the members of the Association of University Technology Managers that he was travelling around and buying up many university-developed patents.

By all accounts, the great

majority of the auction attendees were lookers rather than buyers. It was “a test bed” for future IP auctions, says veteran Silicon Valley IP litigator James Pooley. Some lookers said they would be more interested in bidding at OceanTomo’s next auction event, set for 25th and 26th October in New York City. That auction will include trademarks and life-science patents. Rumour has it that Malackowski has been in talks with Donald Trump staffers about the possibility of contestants from the next series of the billionaire’s hit series *The Apprentice* participating in some way.

Malackowski acknowledged that the pre-auction hype exceeded his expectations, but the actual auction process and the sales were what he had anticipated. The task for his upcoming auction, he says, is to

“match the reserves to bidder expectations”.

Whether auctions are a good marketplace remains to be seen but the likelihood is that next time around people will understand the process better and may be more inclined to get involved.

Long-term, if auctions are to become a viable patent marketplace, reserve prices are going to have to be more in line with what bidders are willing to pay. But inventors’ expectations and optimism sometimes have little basis in reality. Witness a patent for a mounting apparatus for marine radar with a US\$2 million price tag and one for a drilling bit with a US\$750,000 price tag – both of which were sitting on eBay at the end of May 2006. So far no bidders have come forward for either patent, leaving them to a fate comparable to many of the lots offered by OceanTomo.