

United States

The patent monetisation cookbook: a structured approach to monetising patents

Introduction

Businesses throughout the world are beginning to focus on the asset value of their patent portfolios. The rise of non-practising entities has also stemmed from the recognition that patents are valuable business assets that can be monetised. Recently, patent assets have been the primary driver of spectacularly large transactions. The speculation around the sale of a portion of Kodak's patent portfolio, the patent asset-driven purchase of Motorola Mobility by Google for \$12.5 billion and the \$4.5 billion sale of 6,000 Nortel patents to a consortium including Apple and Microsoft are all excellent examples. Inevitably, transactions such as these have prompted corporate executives and boards to look more closely at their patent holdings with an eye towards monetising those assets. To them and others, monetisation is particularly interesting for patent assets that have been developed – as is often the case – in order to protect clever ideas, but without being aligned to business strategies, and are thus not supporting current business objectives. These shelf assets, the thinking goes, are potential sources of cash.

Despite its visceral appeal, however, 'patent monetisation' is a complex, non-trivial task that is definitely not for the faint of heart or the cheap of wallet. Experience has shown that monetising patent assets requires a structured approach to extract maximum value. This chapter therefore explores the primary steps in a disciplined and informed patent monetisation programme and gives business executives considering monetising their patents an idea of what is involved.

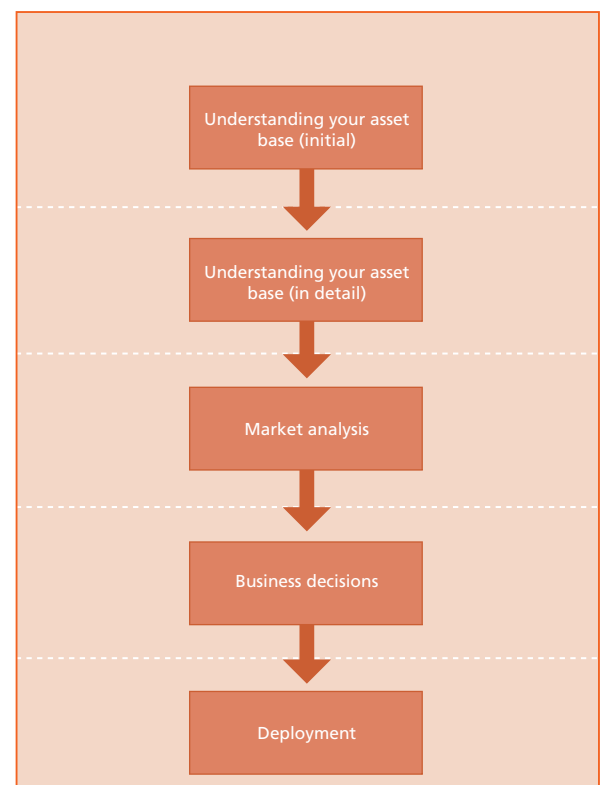
Overview

In theory, patent monetisation, as with any other asset monetisation process, is made up of a few disarmingly

simple and quite intuitive phases. These four distinct phases, as illustrated in Figure 1, are:

- an audit and analysis phase, which includes initial and mapping/detailed analysis sub-phases, to understand what patent assets a company owns;
- a market analysis phase to determine which markets are affected by the company's patents;
- a business decision phase to decide which patent assets to monetise and what approach to follow; and
- a deployment phase.

Figure 1: The basic patent monetisation process



While these four phases are fairly easy to define and quite logical, they require careful and complex analysis and difficult decisions. Each is considered in greater detail below.

Patent audit and analysis phase

The baseline of any patent monetisation programme is achieving an understanding of the business's patent assets. It goes without saying that without knowing exactly what assets a business owns, there can be no systematic approach to monetisation. The patent audit and analysis phase provides this understanding. As some entities have a better understanding of their patent assets than others and the resources required in this phase will depend on each business's starting point, the two sub-phases (initial and detailed) are discussed below with a focus on results as opposed to process.

The first step is to identify all patent assets (ie, worldwide patents and pending patent applications). Although administrative in nature, this is rarely a trivial task. If adequate records of patent filings and status have not been maintained, it may be necessary to query the records of the various patent service providers and patent offices throughout the world. In addition, in the event of mergers and acquisitions, it may be necessary to review the transaction documents to determine any patent assets that were acquired. As painful as this process can be, it has the advantage of providing a good opportunity to clean up any title issues by ensuring that all patent assignments have been properly executed and recorded.

Once the patent assets have been identified – basically, a name and number listing – the next step is to group the assets into families. A patent family is a group of patent assets having similar disclosures, although possibly different claims. (The disclosure of a patent is the technical description. The claims of a patent are the legal definition of what is protected by the patent. Complex patent families can have 10 or more members, both domestic and foreign.)

After that, the detailed work starts: each asset family group must be reviewed to make an initial determination of which technologies are covered by the claims. The analysis in this step requires a review by patent specialists knowledgeable in the relevant technology, who should consult experts within the company to formulate an initial understanding of what each patent family's claims cover. This review produces a preliminary coverage determination for each patent family. This determination, which is essentially a summary of which technologies each patent family covers or applies to, should be captured in a written

document that is easily understandable by non-technical executives so that they can use it to make decisions based on business objectives. In summary, therefore, the output of the initial part of the patent audit phase is a patent asset summary, grouping patent assets by family and articulating which technologies are covered by each family.

After the patents have been identified, classified and summarised at a high level, the business must determine which assets should be considered for monetisation. The first step in this sub-phase is to identify which patents are core (ie, substantially related to business objectives) and which are non-core. Typically, but not always, non-core assets are considered for monetisation (whether through sale or licensing), while core assets are retained to support business objectives. Of course, as objectives change, the definition of what constitutes a core asset will also change. While some accommodation can be made for such potential shifts in business objectives, the core and non-core asset determination must be made in the present timeframe.

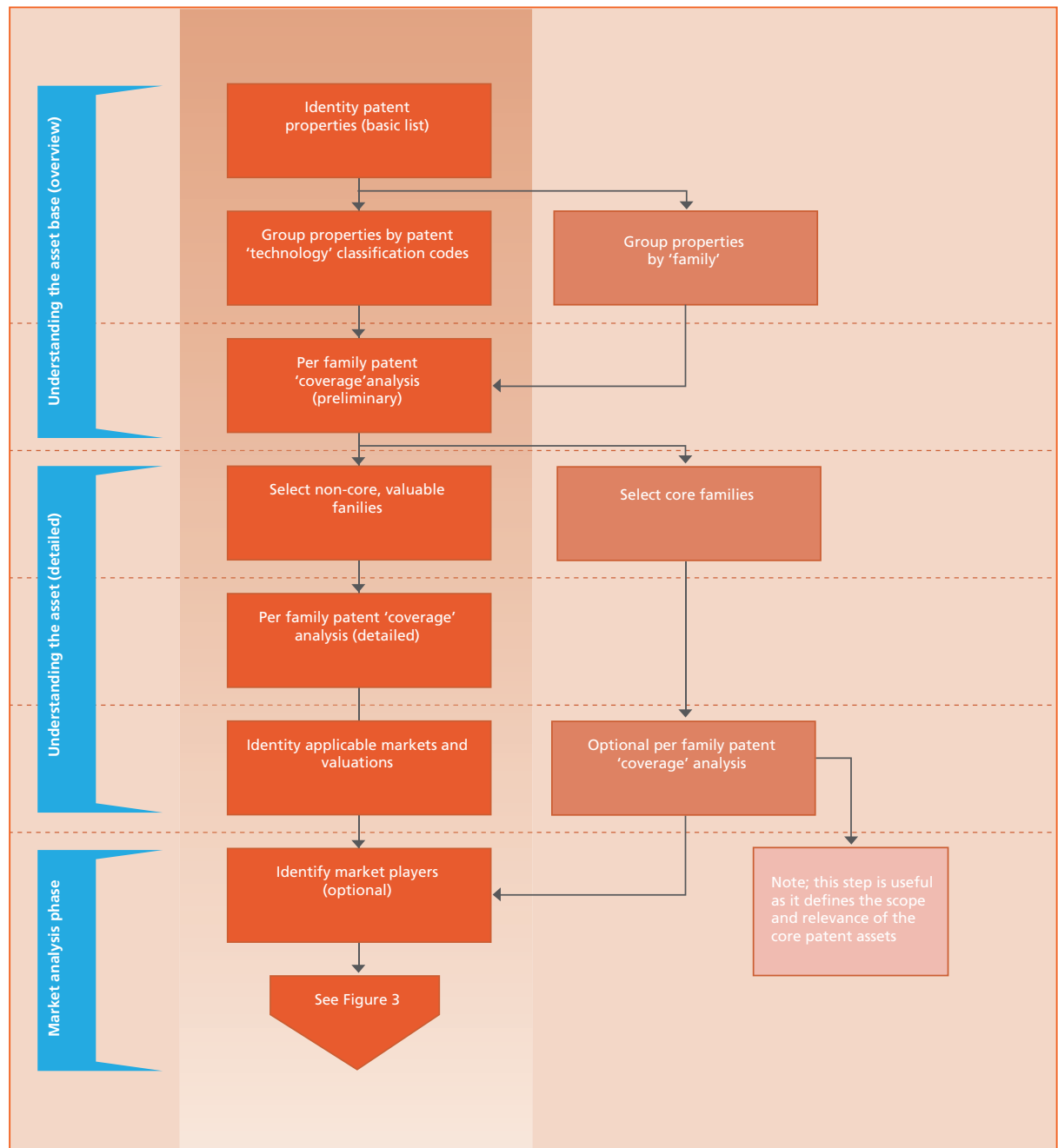
To determine whether an asset is core, it is axiomatic that the person or group making the determination must have a strong understanding of the company's business, strategy and objectives. These can be gleaned from, for example, business plans and discussions with executives. If the objectives of the entity are not articulated clearly, selecting which patent assets to monetise cannot be accomplished properly.

Once the company's objectives have been articulated, the patent asset summaries can be mapped to these strategic objectives to determine which patent families are likely to help achieve the objectives. This process inevitably promotes a great deal of discussion, and possibly disagreement, on which patent assets are core. However, the mapping between the company's business and the patent asset summaries provides the necessary discipline and structure to the process. Ideally, the determination of which patent assets are core should be made by a spectrum of business executives, as opposed to only technologists or only the legal department. It is for this reason that the patent asset summaries must be in a form that can articulate the patent assets' relevance in a way that is meaningful to non-technical business executives.

An advantage of this process is that once the core patent families have been identified, resources can be focused with added confidence on this sub-group for more detailed review and reworking to make them even more relevant to the business.

For each non-core patent asset, it is desirable to gain

Figure 2: Understanding the assets and market analysis



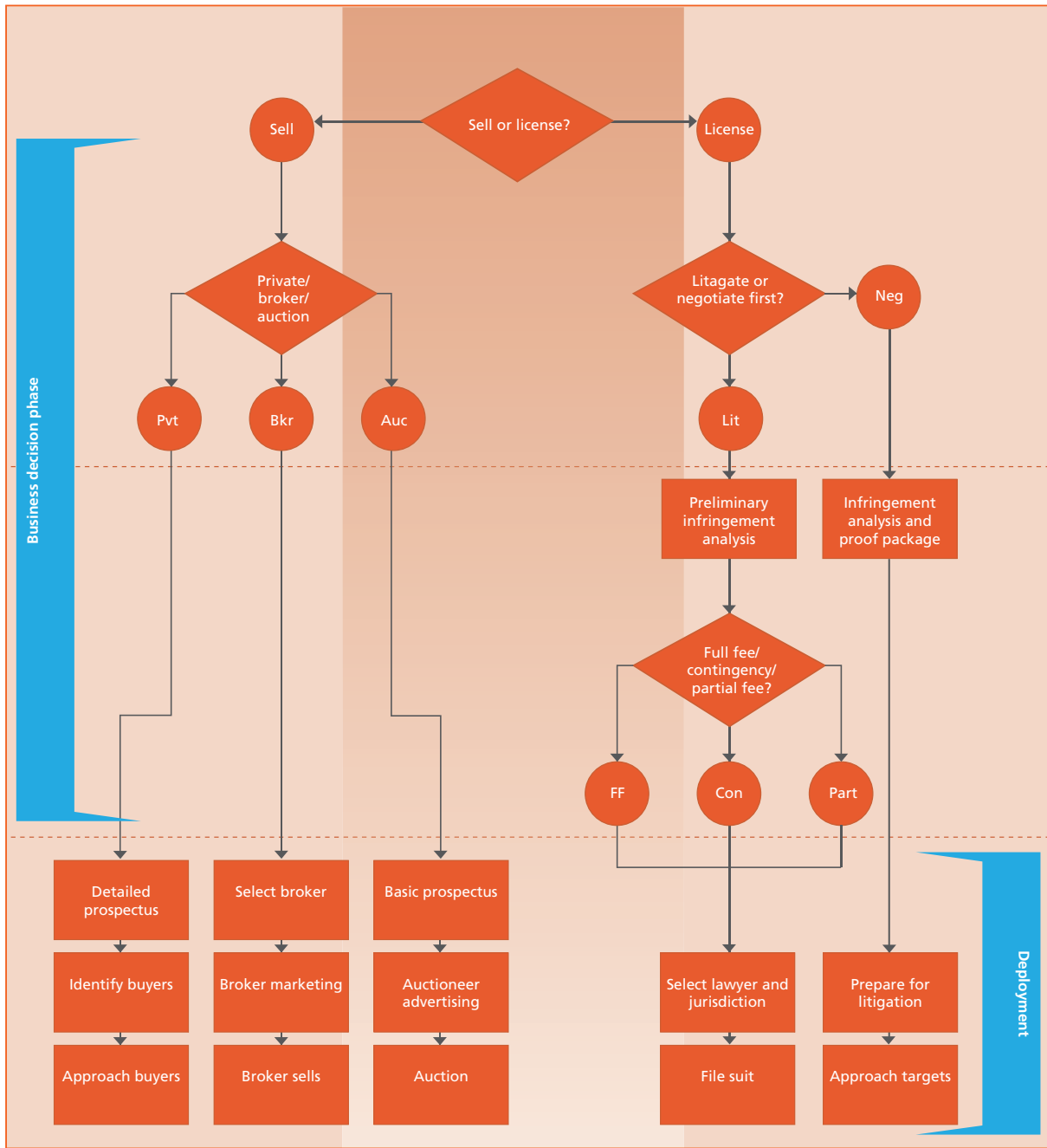
a detailed understanding of the coverage of the patent. Once again, this requires a patent attorney to construe the claim language in a way that a court would be likely to do so in the event of patent infringement litigation. This coverage analysis can sometimes be very detailed and often requires that a patent attorney review the file histories (ie, all communications between the patent office during the patent obtaining process) to understand all representations and characterisations made to the patent offices, especially for US patent properties. As any patent attorney will attest, this is a

complex and expensive process, but the value derived from the process is a document describing the coverage of each patent family taking into account the meaning of all claim terms. This process leads to an understanding of what third-party activities (generally speaking) are covered by the patents.

Market analysis phase

Once the non-core patent assets have been identified and understood, the next step is to determine the value of these assets. In any specialised asset class, a lack of

Figure 3: Business decisions and monetisation deployment phases



understanding of the true value inevitably leads to asset mispricing. Patent assets are no different and stories abound of ridiculously unrealistic seller expectations or assets bought at bargain-basement prices that are immediately ‘flipped’ for large profits. Clearly, this is an undesirable situation because under-pricing will leave money on the table, while significant over-pricing will result in a failure of the monetisation programme.

The first step in determining the appropriate value is to identify the applicable markets. It is possible that a covered technology might be used in several markets.

Market identification can ordinarily be accomplished by the patent attorney and relevant business and technology experts within the company. It is, however, sometimes advisable to retain an industry expert, particularly in cases where non-core patent assets apply to markets not familiar to the company.

Once the applicable markets have been ascertained, the next step is to identify the primary players in each market for each geographic region where patents exist. This is necessary because it helps to identify potential buyers or licensing targets and provides a way to

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measure the revenue affected or ‘addressed’ by the patents. This addressable revenue is the most reliable and widely used measure for determining the value of patents. For example, a rudimentary valuation of a US patent asset can be made by multiplying the addressable US revenue by an appropriate royalty rate (which depends on the industry), and then multiplying by a risk factor to account for the risk involved in extracting that addressable revenue. This valuation (minus an estimate of the resources required to extract the revenue) provides a basis for an asking price for the patent asset in the event of a sale or helps to drive a licensing programme decision. The result of the first two phases (illustrated in Figure 2) is an understanding of potential purchasers or licensors and a valuation for the patent assets.

Business decisions phase

At this point a company will have a good idea of what patent assets it is likely to monetise and what those assets are theoretically worth. The difficult decision will be how to extract the maximum amount of that worth. Essentially, this decision will hinge on whether the company wants to run a patent licensing programme or whether it is prepared to sell its non-core assets. Instinctively, executives tend towards a licensing programme. It is likely to extract the most money which, will show as revenue, rather than an asset sale, on its books. In addition, there is some comfort in that the business still retains ownership of the patent asset. Also, some companies suffer somewhat from the view that “everyone will want to license our intellectual property”.

Unfortunately, however, the ‘everyone will take a licence’ view is rarely shared by licensing targets and, in the United States at least, almost all successful licensing programmes require litigation or have the very real risk of litigation. As shown in Figure 3, there are many options for litigation. However, it is the risk of litigation that often drives executives away from a licensing programme towards an asset sale approach. For this

reason, the rest of this chapter focuses on the sale process.

Deployment phase

‘Deployment’ refers to the constructive steps taken to monetise the patents. If it is to be a patent sale, the first deployment step will be to decide on a sales channel for the patent assets. The three primary sales channels are:

- a direct sale to a buyer;
- using a broker as an intermediary; or
- selling the patents at auction.

While there are other channels for selling patents, such as online markets and the like, these channels are not yet well established.

A patent asset sale by the owner provides the opportunity for the owner to recover the largest value, as there are no commission fees or similar. However, direct sales require a commitment on the part of the patent owner to prepare a prospectus and identify, contact and negotiate with potential buyers. When the seller and/or its patent attorney have strong contacts in the relevant markets, a direct sale may be the best option. In contrast, patent brokers provide expertise in preparing the prospectus and presenting the patents to potential buyers. The right broker may have very strong relationships in the relevant industries, which can lead to a bidding war that increases the sale price. This is what appears to have happened with the Nortel portfolio. Of course, the broker will charge a fee – often a large percentage (15% to 25%) of the sale price. Although selling at auction usually requires the fewest resources on the part of the seller, auctions are less likely to target the best potential purchasers and thus could result in a reduced sales price.

Regardless of the selected sales channel, it is critical that the patents be presented to potential buyers in a manner that helps them understand quickly how those patents will be valuable assets for the buyer to acquire. Hence, the work accomplished in the patent and market

analysis and valuation phases will be invaluable. Patent asset value is greatly dependent on 'context' (ie, the identity and circumstances of the owner, the buyer and the markets). For example, patent assets owned by an individual inventor with little financial resources may have a relatively low value because the owner is unable to enforce the patents through a prolonged licensing negotiation and possible litigation. However, these same patent assets will increase in value when owned by an entity with the resources to license and enforce the patent. Accordingly, it is critical that the patents be marketed to entities that will see the greatest value in the patents based on their activities and resources. Therefore, the sales channel that is most likely to reach these entities should be selected.

Comment

A patent asset monetisation project requires a great deal of resources and patience, and is definitely not for the faint of heart. But, if properly done, monetisation can provide significant cash for a business. The asset owner should understand the context in which the patent asset has the greatest value in order to target the potential buyer that will pay the most for the asset. While licensing programmes have initial appeal, they have a high litigation risk, so asset sales are often preferred. There are several potential sales channels, each with distinct advantages and disadvantages – the selection of the appropriate sales channel is critical in order to realise the greatest value of the patent asset.



Craig P Opperman
Partner, Silicon Valley
craig.opperman@dlapiper.com
DLA Piper LLP US
United States

Craig Opperman is a partner in DLA Piper's IP and Technology group, based in Silicon Valley. Mr Opperman is recognised as one of the world's leading IP strategists and brings more than 25 years of legal, international corporate-executive and engineering experience to his practice. Mr Opperman specialises in working with intellectual property as a corporate asset, and in particular where that asset intersects with a company's business. Mr Opperman is a Stanford Business School alumnus and holds degrees in law and engineering. For the past three years, Mr Opperman has been recognized by *Intellectual Asset Management* magazine's peer-reviewed World's 250 Leading IP Strategists. In 2011 the *Daily Journal* named him to its list of the Top 25 Intellectual Property Portfolio Managers, Prosecutors and Licensing Specialists in California. He also serves on the IP Law Advisory Board for Strafford Publications, and has presented to the US Patent and Trademark Office's Public Patent Advisory Committee on the subject of patent quality.



Marc Kaufman
Partner, Washington DC
mkaufman@reedsmith.com
Reed Smith LLP
United States

Marc Kaufman is a partner in Reed Smith's IP Group in the Washington, DC office. He specialises in assisting clients in managing their IP assets. He has developed structured procedures for defining and executing IP strategies that are aligned with overall business strategies. From procuring and enforcing rights in the United States and abroad to structuring and negotiating IP transactions, Mr Kaufman helps his clients to achieve their objectives. His practice encompasses work in a wide variety of technical fields, including reconfigurable processors, content aggregation and targeting, digital rights management, database technology, document retrieval, search engine technology and data mining. Mr Kaufman was recognised by his clients in the 2006 Client Service All-Star national survey by the BTI Consulting Group, Inc, for his ability to understand clients' needs and to deliver relevant, timely and practical business and legal advice.