Portfolio Media. Inc. | 860 Broadway, 6th Floor | New York, NY 10003 | www.law360.com
Phone: +1 646 783 7100 | Fax: +1 646 783 7161 | customerservice@law360.com

The Full-Spectrum Intellectual Property Adviser

Law360, New York (March 28, 2012, 1:31 PM ET) -- This summer, Allan Fanucci, of Winston & Strawn LLP, and I co-authored a two-part article on Law360 entitled "The Long March to New IP Licensing Paradigms." The article discussed the increasing importance of intangible assets to the world economy and how this affects the intellectual property marketplace. The ever-growing importance of intellectual property in the world economy can be summarized in a single statistic. In 1975, 83.2 percent of the value of S&P 500 companies derived from tangible assets. By 2009, a near inversion had taken place, with 81 percent of the value of S&P 500 companies deriving from intangible assets. Chief in importance among this newly central asset class is intellectual property.

In conjunction with this inversion of corporate asset value has come a fundamental shift in the way IP is viewed by its owners and other market participants. Whereas IP was once thought of as a legal protection against competition, many now view it as a strategic asset class that creates revenue-generating opportunities outside of a company's core business.

As corporate attitudes have changed, the market has created new opportunities to monetize IP, especially patents. In the recent past, the only way to monetize patents was through extremely inefficient bilateral transactions. Now, if the owner of a patent wants to sell or license a patent, she has the option of selling it in a private or public auction and, beginning in 2012, will be able to license the patent on a financial exchange. In order to serve clients in this evolving IP monetization marketplace, IP attorneys' outlooks and skill sets must evolve and broaden. In other words, practitioners will need to become full-spectrum IP advisers.

Most intellectual property attorneys currently see their job as comprised of two primary functions. The first is to obtain and maximize IP protection for their clients through the prosecution of patents, trademarks and copyrights. The second function, which extends from the first, is to protect clients' IP portfolios through monitoring for infringing uses, writing cease-and-desist letters, and engaging in litigation.

In order to be a full-spectrum IP adviser, an IP attorney must build a third function into her job: that of an IP monetization specialist. This means that in addition to the traditional IP protections roles, the full-spectrum IP adviser will also mine a client's IP portfolio for opportunities to create additional revenue by selling or licensing IP assets.

One of the first U.S. attorneys who can call himself a full-spectrum IP adviser is Joe Miotke. Miotke runs the IP monetization practice for DeWitt Ross & Stevens SC in Madison and Milwaukee, Wisc. DeWitt's IP monetization practice is one of the first in the U.S.

Miotke says that IP monetization is something that should be discussed with every client: “You should absolutely bring it up because it’s an additional way that clients can make money. There is no downside to it in many instances.” Even if a client seeks counsel about an unrelated IP problem, Miotke will always “raise it with clients so they are at least aware of it.” He also finds that in his practice, clients are increasingly aware of IP monetization and will inquire on their own: “More and more clients are reading about this in the Wall Street Journal. So, many business executives are getting intrigued by this.”

Mining the Hidden Patent Portfolio Gems: A Brief Primer on IP Monetization

To assist clients through the monetization process, the first step is to mine a client’s patent portfolio to identify patents with strong monetization potential. Miotke finds that “a lot of times clients don’t even know what is in their IP portfolio, and we can go in there and say, 'Eureka! There are some pretty valuable patents in this portfolio.'”

There will be two situations where monetization often makes sense: (1) when patents are idle; or (2) when patents represent technology that is being utilized by the client in one market or application but may have applications in other industries.

The first situation is simple. Many companies hold patents that are not useful in their core businesses or would be used for products that the company decided not to develop. Instead of sitting idle in a client’s patent portfolio, these patents can be monetized.

The second situation applies only to certain very valuable patents. Some patents cover technologies that have broad applications in multiple fields. These technologies may be used in a company’s core business. But the technology could also be used in other industries where the owner of the patent does not compete. The patent owner could license the technology to a company in a different industry, significantly increase the revenue derived from that technology, and maintain its technological edge over competitors in its own industry.

The next step is to help the client determine whether pursuing monetization is more valuable than keeping the patent in its portfolio. Mioke makes sure a client is ready to give up exclusive control of its patents. He will advise a client that, “If you’re not willing to drop the keys of your mansion into someone else’s hands, then you shouldn’t do this.” An idle patent may be more valuable as a tool to deny competitors a technology than it would be monetized. And, in some situations, a combination of denying competitors the technology while licensing the technology in other industries is the best strategy.

Then the IP adviser must analyze the patents to determine their value and the best monetization method. Miotke organizes patents into three tiers based on their potential value. A “Tier One” patent is the most valuable and easiest to monetize. It is a patent with claimed technology that could generate substantial licensing revenue in the near term because the technology is already being used in the market place, and is sometimes even being infringed.

A “Tier Two” patent is with claimed technology in the early stages of use in the marketplace and has the potential to generate substantial revenues if the technology continues to be adopted. “Tier Three” patents’ claimed technology have yet to be adopted in the marketplace but there is good potential for future adoption.

Traditionally, there were four options for monetizing a patent: privately brokered bilateral sales, private auctions, public auctions, and conventional licensing agreements. The best method to monetize a patent depends heavily on the technology in question and the purpose of the deal.

Unfortunately, regardless of the method used, the monetization process can often be marred by inefficiencies and subpar results. For example, many patent owners work with brokers who prepare offering packages and approach potential buyers individually. But there is no standard method to prepare an offering package leaving buyers with no way to compare potential deals. Consequently, offering packages are often ignored. And public auctions have often been unsuccessful in selling many of the patents they attempt to sell.

In the past, licensing has been a somewhat unpopular option. Patent investors and patent sellers have preferred outright purchase. Patent investors have wanted absolute control over the patent and patent sellers have found administering a licensing program to be expensive. But there is an emerging licensing method that will eliminate many of the efficiencies associated with patent monetization and may change the attitudes of market participants.

An Emerging Monetization Method: The IPXI

Only a little more than 10 years old, the service provider market for IP monetization is a rapidly evolving and still-maturing field that will require ever increasing levels of specialization. Beginning this year, the skills that the full-spectrum IP adviser will need to master will expand with the launch of the Intellectual Property Exchange International (IPXI), the world's first financial exchange focused on IP rights.

IP owners who wish to list their patents on the exchange (a "sponsor" in the IPXI's rulebook) can do so through a vehicle called a "Unit License Right" (ULR) contract. A purchaser of a ULR contract gains the right to use the IP for a predetermined number of instances, for example, the right to produce a pre-established number of units of a product using the patented technology that the IP owner has listed on the exchange.

For example, let's say Company A owns a patent on technology that it uses in jet engines. But that technology also has applications in the production of truck engines. So, Company A decides to offer a ULR contract on IPXI permitting the purchaser to produce 5,000 units of its product with Company A's patented technology. Company B, a truck manufacturer, realizes the usefulness of the patent and purchases the ULR contract from Company A through the exchange. Company B now owns a license to produce 5,000 truck engines using Company A's technology.

Miotke advises that "not every patent asset is going to be appropriate for listing on the IPXI. The patents that you want to list on the IPXI are going to be very high value patents. It's not a place where your clients can empty out their IP dumpster."

Ian McClure, a director with the IPXI, says IP advisers will work on every side of the transactions that take place on the exchange. "They will work on behalf of the IP sponsor with the exchange to help identify valuable IP, list that IP on the exchange, market that IP, and then identify purchasing opportunities on behalf of their clients." Also, "IP advisers will work in collaboration with the exchange to help with the quality vetting process" to ensure that all listed IP meet IPXI's quality standards.

Conclusion: Developing the Full-Spectrum IP Adviser Skill Set

Despite the growing need for full-spectrum IP advisers, there are currently relatively few attorneys practicing in the IP monetization space. Miotke attributes this to a lack of understanding: "By now most IP attorneys have heard about patent auctions and IPXI, but it's been my experience that few understand it with any level of depth."

McClure, adds: “Any IP lawyer is well qualified to be an IP adviser. One of the biggest hurdles that we have is the education process about this model. It’s simply a change in mindset about how they think about IP. Once they change from thinking about IP as a risk management tool to thinking about it as a value proposition tool, we will find a lot more IP advisers out there.”

There are many resources available to attorneys who wish to take steps to become full-spectrum IP advisers. A good starting point is to review some of the literature on this topic. The books "Rembrandts in the Attic" by Kevin Rivette and David Klein and "Strategies for Investing in Intellectual Property" by David Ruder are excellent introductions to the subject.

Miotke presented and published an overview of the IP monetization space at the American Intellectual Property Law Association’s 2010 Annual Meeting, titled “The Emerging Intellectual Property Marketplace And How Businesses And Universities Can Benefit From It," which is available on the AIPLA website. The writings of Ron Laurie, which can be found on his website at www.ip-strategy.com, are a great Web resource.

And the Intellectual Asset Management Magazine blog (www.iam-magazine.com) written by Joff Wild is a good place to keep abreast of the latest developments in the field. You can find out more about how to formally become an IP Advisor for the IPXI at www.ipxi.com/membership/other.

Both Miotke and McClure report that the professionals who are already practicing in the field are usually very willing to share their knowledge with those who want to learn more. And those who are very serious about developing an IP monetization practice should attend a meeting of the Intellectual Property Business Congress sponsored by IAM Magazine. This conference is the place to meet all the major players in the IP monetization world.

--By Ted Wills

Ted Wills writes regularly about intellectual property topics. He was a contributing editor and staff writer for the 2011 ABA Best Niche Blog, Legal As She Is Spoke. Also, he won Local First Prize in the American Society of Composers and Publishers 2010 Nathan Burkan Memorial copyright writing contest and was the 2009 New York State Bar Foundation Intellectual Property Fellow. Currently he works in the in-house legal department at Mercury Solar Systems. He can be reached at tedwills@gmail.com.

The opinions expressed are those of the author and do not necessarily reflect the views of the firm, its clients, or Portfolio Media Inc., or any of its or their respective affiliates. This article is for general information purposes and is not intended to be and should not be taken as legal advice.