

Column
IP Investor

Written by
Bruce Berman



Dangerous conceits

There are a number of reasons, many of which have little to do with hard-nosed business principles, why letting go of a patent can be difficult. But if companies are to do justice to themselves and their shareholders, they must take the sentimentality out of portfolio management

"He called it Sleet's crows-nest, in honor of himself; he being the original inventor and patentee, and free of all the ridiculous false delicacy, and holding that if we call our own children after our own names (we fathers being the original inventors and patentees), so likewise should be denominate after ourselves any other apparatus we may beget."

Herman Melville, 1851

We see ourselves in our offspring. Like most parents, we observe in them an innocent future without limitation or flaw. Inventors and patentees, too, "free of all the ridiculous false delicacy", imbue their creations with the full weight of their hopes and dreams. While imagination is the fuel of innovation, when it comes to considering IP rights it is the seed of confusion.

Seeing patents for what they are (and are not) is a profound challenge. It is no easy task for an owner or inventor to prioritise a portfolio – to determine which rights are primary, which are non-essential but necessary, and which are better abandoned than maintained. Poor perspective afflicts small and large companies alike: corporate R&D departments and garage inventors. Most would rather pay a small fortune in worldwide filing fees and legal costs until patents expire rather than make a decision to kill, transfer or sell them. It feels safer to hold on to all of something about which you are uncertain rather than take responsibility for the decision to manage it. The thought that someday a patent might be worth something to someone under certain conditions (it is, in fact, 100% of something) is provocative and difficult to contain. In the real world, however, holding patents is often more costly than folding them.

What harm is there in ogling our offspring? Melville suggests we drop the pretence about

our creations made in our own image and simply call them after ourselves. The great novelist, who depicted Captain Ahab's vainglory in his blind pursuit of the white whale, similarly observed Captain Sleet's quest for perfection "in honour of himself".

Fixated on a windfall

Internet patent licensing exchanges failed because they did not comprehend how IP transactions occur. When it comes to licensing or otherwise transferring the rights to patents, discretion is the better part of valour. No owner wants competitors or customers to know it is acquiring or selling patents in a particular area and why. Even assignees can be difficult to discern, hidden by entities such as IP holding companies that are remote from taxes and counter assertions. I believe that's why companies, like the little one I run, have been drafted into the role of patent broker. If we make calls to the right people and a transaction ensues, needs are quietly served. If not, no one is the wiser. Advertising in *The New York Times* or on the internet, as if for a summer cottage, does not provide buyers a comfort level. Sellers, too, prefer that the marketplace not know what they are unloading, why and at what price.

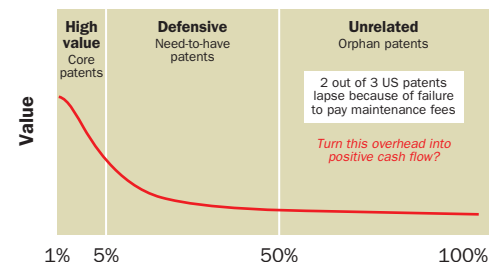
Most innovators are fixated on a windfall from an industry-transforming invention sprung from the loins of their own R&D. Many companies, like those in the pharmaceutical industry, feel compelled to aim high or not at all. In some contexts, what are perceived as worthless rights protecting a stillborn invention are a resource worth aggregating. The notion of success and failure among patents (separate from an invention) is evolving, and grey is starting to supplant black and white. This is a relatively new concept. The huge number of invention rights that become unrelated to a company's business objectives, and which may no longer be the vessel of shareholder dreams they once were, need not be written off completely. To the right company at the right price and time, they may have meaning.

5-45-50

Only a small percentage of information technology patents support core products directly. The chart below was constructed with the help of a former Fortune 100 executive. It

shows that a relatively small number of patents, perhaps 5%, are essential, and perhaps another 45% are necessary or may be so. That leaves as much as half of a portfolio as unnecessary overhead, irrelevant to company objectives. Because jettisoning them could cause embarrassment, most companies pursue a scorched earth policy, allowing them to lapse with no benefit to the patentee or anyone else.

Anatomy of a patent portfolio



© 2005 Brody Berman Associates, Inc.

Good news for sellers

The competition to buy patents is underway. This means that the market is becoming somewhat more efficient. Higher, more competitive pricing is on the horizon. Buying activity is still relatively modest compared to what it will be like in, say, five years. (For now, that's good news for buyers.) Demand has created a market for families of patents that are viable to some but that in the past had been destined for landfill. It is important to understand that all patent acquirers or aggregators are not merely trolls disguised as Robin Hoods; and sellers are not failed innovators.

Large portfolio owners are not necessarily more dispassionate than independent inventors about the relevance of their patents to their goals. The idea of a more perfect future, fear of failure and, perhaps, a little old-fashioned greed can colour what they see. Smitten with the notion of exclusivity, patentees forget that only on rare occasions do their rights have significant value, but that on many they may have some.

Bruce Berman is President of Brody Berman Associates in New York, where he works closely with IP owners and advisers. BBerman@BrodyBerman.com