



Monetizing Intellectual Property

Your company could have non-core information that's exploitable for cash

BY IAN McCLURE

CONSIDER the following: according to the U.S. Patent and Trademark Office, intellectual property (IP) in the U.S. is worth over \$5 trillion – more than double the federal budget plan for fiscal year 2009. Statistics like this leave many economists, investors, lawyers and corporate executives asking why this value is never fully realized or liquidated. Yet, savvy companies have realized fruitful

methods to monetize intellectual property and experience its potential liquidity. These practices range from the conventional models of sales and outbound licensing to new outlets such as joining IP pools or participating in IP auctions and IP stock markets.

Sale of core and non-core IP

The sale of intellectual property more frequently occurs as a component of an asset

sale, merger or acquisition transaction. In such an event, it is easy to overlook real intellectual property value, especially if it is not core intellectual property or instrumental to operations. When negotiating a merger and acquisition transaction or asset sale, an IP audit may be beneficial to spot hidden value in the company, resulting in a higher closing price. On the other hand, if intellectual property owned by the company is not core intellectual property, it may not result in a higher company appraisal value, resulting in the IP changing hands without compensation for it. In this case, an IP audit may be advantageous to find such IP, in which case it may be placed on the market for purchase by a third-party buyer. Just because IP is not critical to the current operations of a business does not mean it holds no monetization value. One company's trash may be another company's gold, resulting in a sale transaction that benefits both.

Sale and license back

Companies often believe that core intellectual property only holds value in the competitive advantage it creates through its operational use. Although this may be true in some cases, a core IP sale and license-back model may be advantageous in other situations. If a company's IP is critical to its operations but it needs cash to operate, it may sell its IP to another company in a transaction that allows the selling company to license back the IP for its continued use. This model can be efficient and advantageous for both parties, but the selling company should carefully choose the buyer. In most cases, the license back will not be exclusive. Therefore, the buyer will have the option of licensing the IP to other companies, including the selling company's competitors. In a case where the IP creates a strong competitive advantage for the selling company, the sale and license-back model is not advised unless the buyer agrees to limitations in its own outbound licensing.

Another necessary caution in the sale and license-back model for the selling company is transferability of the inbound license. The company should consider its own exit strategy. If it desires to sell the company at a later stage, the company will want to make sure that the inbound license is transferable with a sale of the business. If not, then potential purchasers will find no value in a company that can only be sold without its core IP. That is like buying a cell phone without the only battery that turns it on.

Finally, a last concern for a selling corporation is making sure that the core

IP it sells is not all or substantially all of its assets. Under most state statutes, including Kentucky, this language defines the line between a sale of an asset and an asset sale requiring shareholder approval. When all or substantially all of a corporation's assets are sold, shareholders' voting rights and dissenters' appraisal rights are frequently triggered. Therefore, to avoid a chaos of legal issues, careful consideration of this component is necessary.

Limited outbound licensing

IP value is only realized if it is used to create a competitive advantage in the marketplace. Many patents or copyrights are underutilized or not even used. In many cases, a company's resources don't afford the company the opportunity to use IP to its fullest potential. A number of patents or copyrights may be licensed out to other users, including licensees in other markets. These licenses can be non-exclusive, allowing numerous royalties or income streams from the same intellectual property. In this way, a company can turn a balance-sheet ghost into a money-earning asset, raising the overall value of the entity.

IP Pools

A recent phenomenon in the patent arena is the creation of "patent pools," where a number of dynamic companies with different agendas throw their patents onto a single licensing platform, making their patents available under common terms. In effect, a company's IP is available to pool members, but barriers to enter the market are erected, causing more prospective competitors to license from the patent pool. Therefore, even when a company's specific patent is not needed, it reaps the benefit.

These pools are the intersection of a growing open-source technology movement and an important standardization movement. Instead of competing for new patents that facilitate similar technologies in a single market, companies can fashion somewhat of an oligopoly by creating a patent pool through which the congregation of its patents together create and constitute the standard for the industry.

IP Auctions

The concept of auctioning intellectual property is not completely novel. Private IP auctions have been held in the context of bankruptcy or dissolution of a business. In 2006, however, this all changed when Ocean Tomo, an intellectual property merchant bank, hosted the first public IP auction in San Francisco, recording

sales of almost \$3 million. Since then, Ocean Tomo and other IP consulting firms abroad have hosted numerous successful auctions. The phenomenon has created a much-needed transparency to both the sell-side and the buy-side of the market. Before, most IP transactions were done at arms length and behind closed doors, causing arbitrary pricing. Now, price standards can be set, and parties can find each other on a common stage, erasing the transaction costs usually associated with searching for buyers or sellers. Thus, companies that hold unused IP in their portfolio that might be valuable to another enterprise can sell their IP in a visible marketplace.

IP Stock Market

The success of the Ocean Tomo auctions has sparked a new concept that will continue the trend toward liquidity of IP value: an IP stock market. The Intellectual Property Exchange International (IPXI) is the world's first financial exchange with an intellectual property focus. With its official opening slated for 2009, it purports to exploit the intrinsic structure of IP by treating

it like annuities for purposes of investment and trading. IP owners will be able to place their property on the market for potential investors and hedge funds to invest in the right to future royalties. This model will provide even more transparency and the opportunity to monetize IP in completely new ways.

All of these methods, whether a conventional model or a new outlet, can be utilized in different circumstances to monetize IP. The first step is to recognize IP that is hidden or underutilized. This may be effectuated through careful due diligence or by engaging a law firm or IP consulting firm to conduct an IP audit of the company. The next step is to decide whether sale or licensing would be advantageous, carefully considering all of the company's exit strategies. If so, new outlets such as IP auctions and exchanges lend transparency to a marketplace where prospective buyers can be found. ■

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