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Patent payoffs fuel rush of new start-ups

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By Daniel Sorid

SAN FRANCISCO (Reuters) - The draw of lucrative patent licensing deals in the technology sector is swelling the ranks of specialty patent businesses that try to turn technical breakthroughs into big money.

These new companies, often run by former Silicon Valley executives, buy unused patents from companies, broker deals between buyers and sellers of patents, and act as patent "investment banks" to turn knowledge into new businesses.

"All you're doing is you're creating another avenue for inventors to monetize their intellectual property," said Peter Detkin, the former head of patent litigation and licensing at Intel Corp., who is who is now a

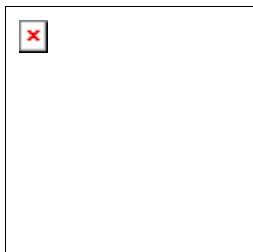
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managing director of Intellectual Ventures LLC, an invention acquisition firm.

Underlying the interest in new intellectual property services are a string of giant settlements and new lawsuits that demonstrate just how much a good patent can be worth.

Several technology companies, including Rambus Inc. , have even made the licensing of patents -- under the threat of lawsuit -- drivers of profit. But the focus on patents is not limited to smaller companies.

Microsoft Corp. recently agreed to pay \$900 million to settle a patent dispute with Sun Microsystems Inc. . Intel has paid \$675 million to shake off infringement claims by Intergraph Corp..

In Asia, Japan's Fujitsu and South Korea's Samsung are tangling over patent infringement claims, and U.S. flash memory maker Lexar Media Inc. has sued Japan's Toshiba Corp. for patent violations.

These big suits and big-money payouts have led hundreds of large companies to look for ways to profit from patent holdings, as well as caused many entrepreneurs to set up consulting practices to help them, said Ronald Epstein, the former general counsel of Brocade Communications Systems Inc.

"Turning patents into value is not an alchemical process where if you obtain the appropriate philosopher's stone, patents will turn into money,"

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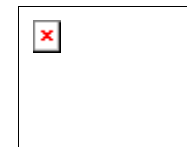
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said Epstein, previously the director of licensing at Intel.

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That outlook pushed Epstein to start his own consulting firm, IPotential LLC, earlier this year. He said the San Mateo, California-based company, which acts as a broker between buyers and sellers of patents, has already signed up 13 clients, five of which have \$500 million or more in annual revenue.

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A similar view led Ronald Laurie, a 40-year Silicon Valley veteran and intellectual property attorney, to start Inflexion Point Strategy LLC, a Palo Alto, California, company that consults on how to spin off intellectual property into new businesses.

Laurie said he has already signed up as clients the government of Canada's Alberta province, and an aerospace company looking to create spin-offs from patents.

"What's going on now is this idea of not just licensing the patent, but actually building the business around them and aggregating them," Laurie said.

Intellectual Ventures, a Bellevue, Washington, company founded by the former chief technology officer of Microsoft Corp. and the former chief software architect of Microsoft, describes itself only as a "private company focused on invention and innovation."

But one Silicon Valley lawyer said the company has raised between \$250 million and \$400 million to build up a war chest of patents that could then be used to extract fees from a range of big companies.

"I'd say that the mathematics of their model are compelling and have instilled fear in a number of players," the lawyer, who spoke on condition of anonymity, said. "People know what they're doing and they are afraid."

Greg Gorder, a managing director of intellectual properties, declined to comment on how much the company has raised, or who its investors are.

Treating patent portfolios as assets that can be used to build a revenue stream is a far cry from the early days of Silicon Valley, when microchip makers agreed to license one another's

patents without much fuss.

That pattern was broken in the mid-1980s by Texas Instruments Inc. , which launched a patent licensing campaign that brought the company hundreds of millions of dollars in fees, said Matthew Powers, the managing partner of the Silicon Valley office of Weil, Gotshal & Manges LLP.

"There's a large number of companies that view their patent portfolio as a means of generating cash, following the TI model," Powers said.

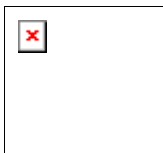
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