



Next up: IP investment banks

by Danny Fortson in San Francisco [Posted 01:16 EST, 17, Sep 2004](#)

A new breed of intellectual property investment fund managers isn't the only type of financier looking at patents in a new light. Now sprouting up in Silicon Valley are so-called IP investment banks.

"There's an active market developing to buy and sell patents," says Ron Laurie, formerly a lawyer with **Skadden, Arps, Slate, Meagher & Flom LLP** who recently founded **Inflexion Point Strategy LLC** of Palo Alto, Calif., with Joe Siino, former head of the IP practice group at **Brobeck Phleger & Harrison LLP**. "People have really just recently recognized that IP is an asset class, just like real estate or corporate securities. All of the things you can do with real estate and corporate securities, you can do with IP."

Adds Ron Epstein, founder and CEO of **IPotential LLC**, a similar outfit set up earlier this year in San Mateo, Calif.: "We're in this business to make a market because a market needs to be made." His clients, he says, range from Fortune 50 companies to venture capital firms to startups. Others doing similar work include **IP Value Management Inc.** of Palo Alto, Calif., and **ICMB Ocean Tomo** of Chicago.

Generating profits from patent portfolios is nothing new, of course. Tech giants such as **Texas Instruments Inc.**, **IBM Corp.** and **Lucent Technologies Inc.** pioneered the practice in the late '80s with the formation of licensing units that operated as separate business units with a simple strategic goal: Get more money out of their vast patent portfolios.

But convincing a company that, first, it relies on a technology developed by TI, IBM or Lucent, and second, that the company should actually pay for it, doesn't generally receive the warmest response. Lawsuits, or at least the threat of them, are often the negotiating tool of choice for licensing deals.

The three tech giants were able to pursue that IP strategy more effectively after a reliable legal framework was set up in 1982, when the U.S. government created a new federal court dedicated to patent issues. Prior to that, patent infringement suits were dealt with by the various federal circuit courts under whose jurisdiction each case fell.

In other words, how cases were treated varied widely depending on the venue and the IP savviness of the judge that happened to take the case. The creation of the new court brought a measure of uniformity and predictability to patent law, both of which had been lacking.

"It really strengthened patents, because now you had a more uniform body of case law, so you knew more about how the patents were going to be treated in terms of enforcement and validity," says Russell Wong, a partner at **Wong, Cabello, Lutsch, Rutherford & Brucculeri LLP** in Houston and former general counsel to Compaq Computer Corp.

With the establishment of the court, lawsuits and judgments began to rise, which meant increasing work for law firms charged with prosecuting suits. Consultancies also began offering services to help companies scour their portfolios for possibly valuable but untapped patents.

The general awakening to the potential of IP, both as an untapped asset and as a potential land mine, opened a niche for firms that can provide strategic advice that law firms cannot, technical understanding absent at investment banks and legal expertise that consultancies lack. "This is a normal evolution of the way IP and

patents in particular are being valued by companies and investment groups," says Wong.

IPotential's Epstein says it was during his time at **Intel Corp.**, where he led a 30-person practice to assert the chip giant's patents while negotiating down claims made against it, that he realized how few industry peers had a cohesive IP strategy or internal resources devoted to it. He noticed that companies were moving more aggressively to buy, sell and litigate over these assets and saw middlemen (like him, now) popping up to broker deals and advise companies on a strategy few had ever contemplated.

Epstein, formerly general counsel to storage company **Brocade Communications Systems Inc.** after serving as Intel's director of licensing, started IPotential with the hope of doing for patents what investment banks do for corporate securities.

The market is still nascent, and the question of just how to value a patent is central to establishing it. Individual patents are generally priced in tiers: \$500,000, \$1 million, \$2 million, while entire portfolios can fetch up to \$25 million to \$30 million. There is no standard valuation model, and how much a patent or entire portfolio can attract is determined by a combination of questions: Is it a technology that is currently used and generating revenue, or has the potential to be? Has it been litigated? Is it valid and enforceable? Is it infringed? Is there a buyer?

"It's better if it's a known quantity, especially if it's been litigated, because the validity is solid," says Inflexion Point Strategy's Laurie. He says many of his clients are private equity firms looking to either build businesses around IP or to bolster the IP holdings of portfolio companies. "It's just better to buy IP than to make it."

For now, however, most companies take a desultory view of their own IP portfolios and have scant resources devoted to them. "Sometimes companies are more concerned with numbers, with having as many patents as their competitors," says John Garland, senior vice president of Clinton, N.J.-based IP advisory firm **Thinkfire Services USA Ltd.** and formerly the worldwide director of IP licensing at Lucent. "But it's not just about the numbers, it's about whether they are useful and commercially significant. That's the name of this game."

How successful these middlemen will be remains an open question. None will reveal any of their clients because of confidentiality agreements or provide any indication of financial performance. "It's in corporate's best interest to get a lot more savvy in this area as quickly as possible, or you're going to be paying a lot of money for this service when you don't really need to," says a top executive at a leading Silicon Valley tech company, requesting anonymity. "There is a niche, but I think that it's going to be short-lived."

What's more certain is that the new firms are just the visible manifestation of larger forces at work. More companies are shaking the dust off patent portfolios to see whether they can extract some money out of them or just to build their defenses as investment consortia such as Intellectual Ventures search for IP diamonds in the rough.

"In the end, there are valid, enforceable and infringed patents, and if you're in the business of selling complex manufactured goods, you're going to infringe them," Epstein says. "The people on the defensive side of this thing just don't really grok the threat, and therefore have yet to begin taking actions necessary to deal with it. There will be people who get to be very successful before action is taken to deal with it."