

# Mining an Intellectual Property Portfolio: Ten Steps to Increasing Revenue

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In 2006 it was asserted that more than 60% of the value of the world's quoted companies was due to their intellectual property.<sup>1</sup> Since the US governmental seizure of Fannie Mae and Freddie Mac, the collapse of Lehman Brothers, and the subsequent \$700 billion dollar US government buyout, the value of these intellectual property assets has probably declined. Yet, considerable value may yet be embedded in these portfolios, and now may be a good time to mine those portfolios for increased revenue as bottom lines continue to contract. This short article lists ten steps that a company might take to maximize the value of its intellectual property portfolio.

## 1. INTELLECTUAL PROPERTY LIST

In order to mine any portfolio, a list of intellectual property assets organized according to product line is needed. If you don't already have a well-organized list, this is the place to start. Group all patents by family and indicate for each patent family which product the patents cover, the income that each product brings in (perhaps by region in a global company) and whether sales are increasing or decreasing. Include all serial, publication, and docket numbers, status information, at least one claim. You can also hyperlink the patent to the remainder of the claims. Don't forget to include all patents acquired over the years, even if not yet recorded in the company name, as well as in-licensed patents. Include a column for royalty percentage and the royalty base for all in-bound and out-bound licenses. All of this information is needed to evaluate the patents importance.

## 2. CATEGORIZE ASSETS

Once a complete list is available, categorize the assets into two or three tiers. Tier one are those assets that are critical to your bottom line and must be protected and enforced. These patents are probably not available to out-license, but you will certainly want to make sure that your competitors are not infringing them. The second tier includes patents that don't cover core technology and may be great candidates to out-license. Enabling technology, or technology covering products that the company is no longer interested in or products that are experiencing decreasing sales might fall into this category. Tier three is old technology that seems outdated, covering products that have been or are being replaced. These patents may be good candidates for outright sale or even donation.

## 3. ROYALTY AUDIT

Somewhat surprisingly, most universities and companies don't have a compliance program in place to monitor licensee activities and revenue reporting.<sup>2</sup> This usually results in money being left on the table that can easily be recovered with an active audit program. Many executives are reluctant to audit licensing reports for fear of damaging the relationship with their license partners, arguing that such relationships should be based on trust. We suggest that a better approach is trust—but verify! Underreporting is not always driven by duplicity. Many times the problem stems from accounting errors or cultural or language difficulties that result in misinterpretation of contract terms. If you don't already have one, inform your licensees that you will be initiating a compliance program, and that they can expect their royalty reports to be audited in the next six months. You don't have to do this yourself, as there are companies that specialize in royalty audit services. Upon learning of an upcoming audit, your licensees may do their own internal checks, and additional monies might be forthcoming with little effort.

## 4. SURVEY INFRINGERS

The next step is to determine which companies are infringing your patents. Surveying for infringers is easily done in today's web-based market world, and anyone with some technical savvy and good search skills can provide you with a list of infringers, the available proof, and contact information for each infringer. These surveys are particularly easy in the life sciences where publication of technical details is the norm. Anyone with a knowledge of patent basics and familiarity with the patent portfolio can perform this investigation, but once potential infringers are identified you should consult with patent counsel to confirm that infringement is likely.

## 5. LICENSE WELCOME INFRINGERS

Infringers fall into two categories—welcome and unwelcome. The welcome infringer is one who is using a tier two or three patent that you would be happy to license. Alternatively, a company might even be infringing a tier one patent, but perhaps in a different industry that doesn't impact your market. The unwelcome infringers are those that are infringing a critical patent and eroding your market share.

Write letters to the so-called welcomed infringer inquiring as to their interest in a license. Such licenses may generate additional revenue with little effort, particularly where the infringer already has a product on the market and where the terms are reasonable. Many companies get hundreds of license letters and may pay little attention to your initial inquiry, so be prepared to follow up with personal inquiries. Be very careful in drafting such letters—you don't want to give the infringer a basis to file a declaratory action of patent invalidity. Your patent counsel can provide good advice in the drafting of a letter, but letters should probably not originate from an outside lawyer, because this will inevitably be perceived as threatening.

## 6. SUE UNWELCOME INFRINGERS

If an infringer is directly competing in your market with an infringing product, it may be necessary file a lawsuit to enforce your patent rights. Such suits are expensive and a drain on executive time, and are not undertaken without careful investigation into the strength of the patent, a careful inquiry into the meaning of the patent claims and comparison against the allegedly infringing product. However,

sometimes one successful suit can bring an entire industry into line, either by taking a license or by removing the infringing feature from their products. Further, litigation in a less expensive country, such as Canada or Germany, can provide the same warning to competitors and at lower cost.

## 7. SURVEY COMPETITORS

Assuming that you've already collected the easy money you were already owed, and licensed those companies that have been infringing your patents with impunity, what might a company try next to generate revenue?

Try to find a home for good technology that is not yet in use in the market and that lays outside of your core expertise. Look at your portfolio and find out who the players are in each area of innovation by seeing who else has patents in the same area. Might your patent fit well into another company's portfolio? If so, perhaps you can sell your patent outright, and this is particularly good for tier three patents which no longer seem relevant to the your bottom line. Contact such companies directly, and let them know you have a patent that they might be interested in and at good terms.

## 8. POST IT

If licensees or buyers are not easily found by the above techniques, don't just cut the patents out of the portfolio. That would mean that the money invested to date in obtaining the patent could never be recovered. Instead, try an online patent auction or licensing websites for posting patents that you are interested in licensing or selling.<sup>3</sup> A professional licensing company (sometimes known as a troll) may be interested in your dead wood, and small start-ups might also be interested if the terms are affordable.

## 9. DONATE IT

In the worst-case scenario, consider donating a patent to a research organization. At least you can obtain a small tax credit. Be careful, however, to consult a tax professional because the IRS is wary of inflated patent valuations for donated patents.

## 10. MONETIZE IT

Whenever an intellectual property asset provides a steady stream of income, that stream can be monetized to provide on hand cash by either securitizing the asset

or by using the asset as collateral for a loan. Be selective, however, in which assets are encumbered this way in the event that the downturn lasts longer than expected. You may prefer to keep the crown jewels unencumbered and with a clean title. These two methods of generating immediate cash will require CEO and probably board approval, and are outside the realm of expertise of the average licensing or intellectual property professional. Instead, consult with a good investment banker or other finance professional for advice.

The above ten steps can help you to realize additional value from your intellectual property portfolio and improve the bottom line.

## ENDNOTES

1. Brand Finance GIT™ December 2006.
2. PricewaterhouseCoopers' Technology Executive Connections, Volume 4, June 2007.
3. E.g., [www.freepatentauction.com](http://www.freepatentauction.com); <http://www.oceantomo.com>; <http://www.ipmarket.com>; <http://www.newideatrade.com>; [www.Shop4Patents.com](http://www.Shop4Patents.com), and <http://www.ipauctions.com>; <http://www.pl-x.com>.