

## Business Opportunity Alternatives to Assertion-Based Patent Monetization

*Part One of a Two-Part Series*

By Ron Laurie

The commercial value of a patent derives from the fact that it confers upon its owner a legally enforceable exclusionary right, *i.e.*, the right to exclude others from operating within the product or process space defined by the patent claims. A patent that current and prospective infringers know will never be asserted against them has zero economic value. Thus, a patent implicitly carries with it the potentiality, *i.e.*, the threat, of assertion, and the value of the patent ultimately reflects the collective commercial risk that potential infringement litigation targets assign to that threat. On the other hand, patent assertion as a monetization model implies something more. Typically, the assertion entity has no other business and thus is not vulnerable to counterclaims for infringement of its targets' patents. It says to the target, "We have a patent that covers what you are doing. Pay us a royalty or we will sue you." The assertion model is essentially a zero-sum game, and the pejorative moniker "patent trolls" has come into vogue as a way to describe those who exploit this model, although there is considerable controversy surrounding what attributes distinguish a troll from a legitimate patent enforcer. The value proposition for the troll's target is either to pay for a nonexclusive license (or covenant not to sue), or to contest infringement and/or validity of the patent in court and risk a damages award in the form of a reasonable royalty (which may be trebled for willful infringement) — or worse, the possibility of an injunction.

In contrast to the assertion model, the business opportunity model of patent monetization is premised on a win-win value proposition, and takes many forms. These include: a) an outright sale of the patent, with or without a continuing economic interest; b) one or more exclusive field-of-use licenses in selected vertical markets or discrete commercial applications; c) nonexclusive licenses coupled with technology (know-how) transfer; d) corporate transactions involving the sale or merger of entire companies or the spin-out of divisions, business units, or technologies; and e) various investment and financing vehicles.

### **OUTRIGHT SALE OF THE PATENT**

The simplest monetization alternative is an outright sale of the patent. The buyer could be a company that is already operating in the technology space represented by the patent or one that is about to enter the field, or, with increasing frequency, the buyer may be an institutional patent aggregator. The former group may be characterized as strategic buyers and the latter as financial buyers. The purchase price can be a lump sum, either in cash, stock, or a combination of the two, or it can involve a continuing revenue stream (a "tail") based on performance. In the latter case, the seller will usually retain a reversionary interest in the patent(s) such that if certain financial milestones are not met, ownership reverts to the seller.

If the seller is an operating company, sale of a patent may also involve retention of some rights under the patent by the seller via a reservation of rights or a grant-back license. The grant-back may be nonexclusive or, if the buyer and seller are in different fields (and the patent covers both), an exclusive license within the field of the seller's business. In either case, issues as to whether the grant-back license: a) includes sub-license rights; b) covers follow-on or improvement patents granted to the buyer; and/or c) survives change of control of the seller/licensee are important, are often contentious, and can be the subject of substantial negotiation.

### **EXCLUSIVE FIELD-OF-USE LICENSES**

Another business opportunity model involves the granting of one or more exclusive field-of-use licenses, one of the most valuable and versatile tools available to patent owners. For example, assume that the patent(s) cover not only the patent owner's products and markets but other applications as well. The patent owner could grant a third party an exclusive field-of-use license for all fields outside the owner's business. A well-known variant of this approach is for the patent owner to define "core" versus "non-core" applications of its patents to its business and grant nonexclusive licenses to

others for the non-core applications. Alternatively, instead of granting a single exclusive field-of-use license, the patent owner can define a number of non-overlapping applications of the patent, sometimes called “verticals,” and grant an exclusive license within each vertical to a different party. Finally, to the extent that several parties are in different businesses and they each have patents covering both their business and the business of the other part(ies), they can enter into exclusive field-of-use cross-licenses, whereby each party aggregates an exclusionary position in its field of interest. This can be particularly effective in creating contractual joint ventures. One thing that must be borne in mind when creat-

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**Ron Laurie** is the co-founder and managing director of Inflexion Point Strategy, LLC, an IP investment bank that represents technology companies and institutional investors in connection with the acquisition and sale of patents and related technology assets.

ing any exclusive field-of-use licensing program is to ensure that the licensee has full enforcement rights within its field (the standing issue) and that the patent owner agrees to join in any enforcement action (the joinder issue).

### **NONEXCLUSIVE LICENSE AND TRANSFER OF KNOW-HOW**

While “bare” nonexclusive licenses (or covenants not to sue) are one of the identifying attributes of the patent assertion model discussed above, there is a form of nonexclusive license that falls within the business opportunity model, namely a nonexclusive license coupled with the transfer of know-how, technical support, etc. This is generally referred to as a technology license and represents the difference between “stick” licenses (the assertion model) and “carrot” licenses (the business opportunity model). A number of “IP companies,” such as Rambus, Tessera, Interdigital MIPS, and ARM, have been formed, or have evolved, around this model.

Typically, the company has three operating units: R&D, IP licensing, and customer support. The only “product” in the conventional sense is the technology that is transferred to the customer, which may take the form of digital design data, such as microprocessor cores or cell libraries. The customer support activity assists the customer in integrating the technology into its products or processes. Patent monetization may also occur in the larger context of a corporate transaction such as a sale or acquisition of a company, divestiture of a business unit, or merger of two companies.

*Next month's installment will discuss corporate transactions, and investment and financing vehicles.*



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