

Keys to Effective Patent Monetization



By Scott W. Doyle and Vishesh Narayen | March 2020 | Association of Corporate Counsel Tampa Bay

It is a little-known fact, even among companies with sophisticated practices surrounding their intellectual property, that nearly 90% of U.S. patents are never used to earn a dime. Under-utilization of IP, like the under-utilization of any other asset, should be of concern to any company with a robust patent portfolio. In this article, we discuss a few principles that can guide you to effective monetization of under-utilized patents.

Types of Patent Monetization Vehicles

There are several methods, or vehicles, for monetizing patents. One common method is through licensing, under which patent owners generally grant rights to interested parties (e.g., competitors and/or potential infringers) to manufacture, use, and/or sell the patented invention in exchange for royalties. Licenses may be exclusive or non-exclusive. Non-exclusive licenses are usually preferred since they can't be deemed to create market impediments, don't typically require onerous protection obligations such as indemnities and enforcement clauses, and allow the licensor to license other companies that may grow large market shares later. Such revenue recognition may also occur by collecting royalties as part of a patent pool related to a Technology Standard where risks and rewards are shared with others. However, there are several potential pitfalls that must be investigated before going the standardization route such as very low royalty rates due to patent stacking, for example, and vague and inconsistent licensing rules.

When licensing fails or is not an option, a patent owner can consider litigation as a route to monetization. For example, the owner may bring a patent infringement lawsuit in federal court, to recover money (damages) for the unauthorized practice of its patent or stop the unauthorized use (injunction).

A third alternative is to monetize patent assets through a patent sale. There are innumerable methods by which to effectuate a sale, including through the relatively new phenomenon of IP or patent brokers who specialize in brokering the sale of intangible assets like patents, auctions, and the sale or merger of a special-purpose vehicle designed to hold the assets.

Finally, the patent owner who sells patented products may leverage its patented position to enter into more beneficial strategic relationships with third parties which can provide necessary design, manufacturing, financial, marketing, or other expertise.

General Patent Monetization Mistakes and Remedies

In the process of monetizing patents, there are several common mistakes that should be avoided. One common mistake is failing to understand the value of your patent before entering into a license negotiation or litigation, which could lead to licensing a core patent asset far below its market rate or worse including invalidation of the patent assets.

This mistake most often occurs because the patent owner fails to conduct some form of a competitive patent intelligence analysis (“CPI”) to gain a full understanding of the strengths and “warts” of a particular patent or portfolio, and thus overvaluing the patent or portfolio. Phase 1 of CPI typically requires assessing the strength of the patents to determine which patents to possibly monetize. Phase 1 includes the following stages: (1) analyzing the scope of the patent claims in view of the specification and file history; (2) comparing construed claims to competitor or third party products for likely infringement; (3) comparing construed claims to the closed prior art as part of an invalidity analysis; (4) investigating whether there are broader dominant patents of others that may devalue your patents of interest; (5) determining if your patents are easy to design around (i.e., ability to modify or change products in a cost effective and technologically feasible manner); and (6) determining if the value of the patents are already established by their inclusion as essential patents in a Standards Setting Organization (“SSO”) which may dictate that the patents be licensed on fair, reasonable, and non-discriminatory (“FRND”) terms. Once these stages are completed, the patents can be ranked according to strength with the weaker patents tossed to the side as insufficient candidates for monetization.

For a patent owner who itself sells products covered by the patents, the process is not complete. Such a company must determine the extent it is vulnerable to counterclaims of patent infringement from competitors or other licensing targets. It is not enough to fully understand the strengths and numbers of one’s own patents when playing in a minefield of competitor patents. Your foes may be able to wage a war that threatens your company’s viability. Thus, the same type of analysis as described above must be performed on broad third-party patents which may jeopardize the business of the company or in effect devalue its own patents due to the necessity of cross-licensing.

Using the results of the competitive analysis, the company can create a proposal for monetizing its patent portfolio. This includes categorizing the strongest patents for exploitation in a particular market. Business goal must be established that will drive the exploitation. For example, determine if the goal is to maximize returns in a relatively short timeframe. This would make sense in an industry where technologies change rapidly. If a more long term strategy is envisioned, the company may want to provide more favorable terms to early licensees to imbue the patent with industry recognition. Next, it makes sense to develop a monetization scheme that conforms somewhat to the norms and customs in the market of interest. For example, the normal licensing royalty rates in the telecom industry typically vary from one to six percent. Once this is done, the commercial value of the patents should be determined via an economic valuation. Various valuations exist for determining economic value such as a “reasonable royalty” determination. Much thought must then be given to the legal and other terms which should be somewhat consistent when licensing third parties. Upon completion of the commercial valuation steps above, the results can be used to select one of the proper monetization schemes described above.

As illustrated above, patent monetization is a complex, multi-faceted undertaking with many potential pitfalls. But a well-executed patent monetization strategy can lead not just to a new or increased source of revenue but also to a better understanding of how a patent portfolio can serve a company's business needs.

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About the Authors:

Scott W. Doyle, *Shareholder and Chair of Greenberg Traurig's International Trade Commission (ITC) Section 337 Litigation Practice*

Vishesh Narayan, *Of Counsel, Intellectual Property Litigation*



Scott W. Doyle
doyles@gtlaw.com



Vishesh Narayan
narayenv@gtlaw.com