Protecting Your Intellectual Property in the U.S. And Extracting Maximum Value from Intellectual Property Assets

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I. Introduction

The collapse of the telecom sector and the Internet Bubble have had a major impact on technology centers such as Silicon Valley. Technology IPOs are dead. Yet technology is being incubated and money is flowing into meritorious start-ups. The emphasis is on problem solving, not business models on the Internet. One measure of growth is patenting of inventions. That has stabilized in the high tech sector and continues to grow in the biotech sector. The investing mode is conservative with strong emphasis on successful and mature management.

The unbridled investment in technology and patenting has moderated and remarkably, patent litigation has remained stable – not increased as happens in most tech downturns.

II. Patents

Patents are passive wasting assets. Until asserted in licensing or litigation, they are of limited value. They may be prophylactic to scare infringers and repel patent suits.

U.S. technology companies have spent to acquire patents almost indiscriminately in the 1990's. The spending closely tracked R&D spending. That spending is being examined more closely and cut back in some ways by cost conscious companies. There is dramatic downward price pressure from major U.S. corporations on the cost to procure patents. Patents are becoming commoditized, especially in companies emphasizing the quantity of patent over quality. Lack of quality ultimately affects the patent value for sale, licensing or litigation.

In this cost conscious environment, many companies are asking basic management questions. Why are we getting patents, what is their value and how do we recover on the R&D and patent investment.

Patent valuation has emerged as an issue because the Financial Accounting Standards Board (FASB) issued three new rules (FASB 141, 142, 143) that in substance require that companies that are acquired, must have their intangibles valued on the books, including intellectual property. The SEC may require all reporting companies to do the same. This attention has elevated patents and other intellectual property to senior management's attention.

As companies examine their intellectual property portfolio, they want to recognize its value. IBM collects approximately $2 Billion per year in royalties from its patent portfolio. This and other successful licensing programs have spurred companies with untapped IP portfolios to unlock their value. IBM is unique in its large patent portfolio of over 20,000 patents and its breadth of technology. It may not be as easy to duplicate its success. Licensing is a long lead time business requiring investment, perseverance, patience and maybe some luck.

There are successful patent portfolios. Jerome Lemelson's patents on quality control and bar codes netted approximately $1 Billion in royalties. So did Ron Katz's voice recognition patents that he bought from Bell Labs. NTP, in Arlington, VA, just got an award of $24 M against Research in Motion (Blackberry) for infringement of its patents covering the protococal for wireless e-mail messaging. This award may be trebled for willful infringement. The value of these patents are in the hundreds of millions of dollars. We are seeing an upsurge in the number of contingency patent litigations – perhaps there are too many under employed patent attorneys.

III. Trademarks

There has been a decline in the number of trademark registration applications in the U.S. perhaps due to the collapse of the Internet Bubble when every conceivable name with ".com" was registered. Some of these marks were sold for millions during the boom. They are somewhat cheaper now.

Established companies highly value their trademarks and extract value by extending their marks to new products and services. This provides an opportunity for product developers to enter the U.S. market under an established brand name by licensing arrangements.

Brand piracy remains a problem. U.S. Customs seizures for pirate products continues to grow. The leading products seized are: wearing apparel (14%), media (13%), watches/parts (10%), batteries (9%), cigarettes (8%), toys/electronic games/trading cards (8%), computer hardware (7%), sunglasses (6%), handbags/wallets/backpacks (6%), footwear (5%), all other commodities (15%). The five top offending countries are: China, Hong Kong, South Korea, Singapore and Taiwon.

One of the new pirating problems is the importation of tags and labels rather than the finished product. In one case, Dooney & Burke handbag labels were seized by U.S. customs. They were bound for a U.S. company that planned to attach them to handbags and sell counterfeited items. The pirate was criminally prosecuted, but his conviction was overturned on appeal. Importing tags and labels separately from handbags reduces the risk to the pirate because the value of the tags and labels is low relative to finished handbags.

The shift of the Customs Department to the new Department of Home Land Security may negatively impact its enforcements of intellectual property piracy. Time will tell.

IV. Copyrights.

Mickey Mouse will never die due to Congresses extension of copyrights for 20 years. Congressman Sonny Bono authorized the bill before he died in a skiing accident. The U.S. Supreme Court upheld the law. It was once thought that copyrights were for a fixed terms, but they keep getting longer. The entertainment industry may succeed in eventually getting perpetual copyrights.

V. China.

The entrance of China to the WTO and its agreement to enforce intellectual property rights is a major change. China was notorious for ignoring IP rights. Other developing countries have done as much. It appears that China is making a serious effort to protect IP.

China's envigored IP system may have an unintended consequence on foreign enterprises. Few foreign countries bothered to get patents in China since they were virtually unenforceable. As Chinese and foreign companies developed Chinese patents, they may be able to bar competition in China by infringers. A scenario could develop in which a U.S. company sues a Chinese company for patent infringement in the U.S. and the Chinese company countersues the U.S. company for patent infringement in China. That scenario applies to other nationalities as well. There are other ways to bar foreign IP holders from the Chinese market. IP will become a chip in the game.

VI. Technology Transfers.

University technology licensing slumped after the Internet Bubble burst. It is reviving. The overall industrial licensing activity is much more cautious. The sale of technology is also off. The one exception is Asian companies buying IP assets of failed companies.

VII. Who is Getting Financing.

Biotech technology still gets funded. Mature bio firms are looking for purchasers. There is funding for security and defense industries. Software funding is soft. Surprisingly telecom is still being funded.

VIII. Entering the U.S. Market.

The U.S. economy remains strong and will continue to buy imports. It and China are the two major growing economies. The shift of manufacturing to China will continue. The challenge is to create U.S. business models that adjust to this shift. Greater efficiency will be needed in the U.S. economy. Intellectual property will be increasingly important to keep infringers from having access to U.S. markets. Foreign companies will need their own IP portfolios to compete. Marketing and distribution may be the major asset of U.S. companies along with their IP rights. The opportunity is to not only make technological advances but to be part of the rapidly changing U.S. economy.

A good way to enter the U.S. Market is with alliances with U.S. companies. The partners may add marketing, distribution, market knowledge and finance to more easily established market presence.

IX. Conclusion.

Importers will be rewarded for their designs, quality and price advantage not necessarily all in the same product. My wife bought her croquet mallet from New Zealand over the Internet (actually her sons bought it as a Christmas gift). Its characteristics were good design, quality product and reasonable price. It also had market presence because her club members had New Zealand mallets.

Anyone can create a market identity. With the publicity of the movie "Lord of the Rings", it is an ideal time to create market identity for New Zealand technology.