

## IP: Monetization is the message

**Ever since Tesla founder** Elon Musk announced in June that the electric carmaker would allow its patented technology to be freely used by third parties acting “in good faith,” industry observers have been attempting to make sense of the move. How could giving away proprietary intellectual property possibly benefit a company? Was it a Kumbaya moment from an unabashed green energy enthusiast, or a canny gambit to accelerate the growth of the electric car market to the benefit of all participants—not least of all Tesla? Was it a transparent, no-strings-attached offer to competing automakers, or a disguised cross-licensing play (you can encroach my patents without fear of legal reprisals, as long as I’m accorded the same privileges later)? And what exactly constitutes “good faith” anyway, in the shark-infested world of patent law?

While it may take some time for the motives and impacts of Tesla’s patent giveaway to be fully revealed, Musk’s curious move has helped shine a spotlight on an area of potential business opportunity that management and boards at many companies might still overlook: monetizing intellectual property assets by opening them up to third-party exploitation.

In July, here in Canada, that spotlight shone even brighter when Jeffrey Immelt, General Electric Co. chairman and CEO, told a Calgary audience that GE was keen to share its environmental technology to help the energy industry develop ways to reduce the climate impact of oilsands development.

As is turns out, GE’s IP-sharing efforts in Canada also extend beyond the oilsands. In Alberta, for the past six months, the company has been running a program designed to create new revenue streams from its vast pool of non-core intellectual property—technology that has potential commercial applications, but that for one reason or another has become stranded and mothballed in GE’s massive, century old patent locker.

“We’re obviously not going to create a whole business division in order to attempt to commercialize a piece of technology we happen to own, so we look for partners,” says Bradley Smith, vice-president of regional programs for GE Canada. In Alberta, those partners happen to be entrepreneurs and small businesses playing in niches that GE has either already exited, or has no interest in entering on its own. “We’re looking for SMEs that can take this technology and commercialize it in order to bring new products to market faster than they could do on their own,” says Smith.

The start-ups benefit by gaining immediate access to technology they would otherwise have to spend time and money developing themselves, and GE gets to share in the profits from the new enterprises, without having to do any of the heavy lifting. “We grow as our licensing partners grow, so there’s a synergy there,” notes Smith.

Nor is GE alone in attempting to generate new revenues from old patents. After years and decades of benign neglect, patent-rich companies are increasingly looking for ways to dust off their orphaned IP and find a profitable home for it, says Sanjay Goorachurn, a Montreal-based lawyer with Smart & Biggar, Canada’s largest law firm specializing in intellectual property management. “So much time, money and effort has been put into building patent portfolios, it only makes sense to try to monetize them. It’s just that up until recently, management hasn’t been focused on that asset class.”



What's his is yours: In June, founder Elon Musk announced Tesla's patents could be freely used by third parties

Moreover, Goorachurn says Canadian companies have traditionally lagged their American and European counterparts in looking for innovative ways to monetize their IP assets. “Are there Canadian companies that are sitting on underutilized IP assets right now?” he asks rhetorically. “The short answer is, ‘Yes.’”

What’s holding them back? In some cases, ignorance. But for many others, it’s fear that they might license a piece of IP to a third party and only belatedly realizes its true value, thereby losing out on potentially significant future revenues. It’s a legitimate concern, says Goorachurn, but the risk is far from unmanageable.

Best-in-class companies, because they’ve been around the block a few times, usually undertake a year to two years of analysis and assessment before letting go of their intellectual property, he explains. “There’s an internal vetting process, and the first question they ask is, ‘Does anyone need this technology in our core business over the next three to five years?’ If the answer is ‘No,’ they then ask if there’s any blue sky or long-term strategic planning that could see the company make use of the IP down the road.”

Once it’s determined that the company is unlikely to ever require a piece of proprietary IP for its own operations, it then becomes a matter of fairly valuing it on the open market. Often the first port of call is to contact an existing partner and ask if they’re interested in the technology, and what they might be willing to pay for it, says Goorachurn. Alternatively, they could contact a number of SMEs to gauge the general level of interest in the technology.

Finally, companies can turn their non-core IP over to professional brokers or intermediaries who will shop the assets for them. “There’s a whole cottage industry that’s mushroomed around this over the last 10 to 15 years,” says Goorachurn. “They’re kind of like IP real estate agents. They’ll apply their resources and contacts in exchange for a piece of the action. If no deal gets struck the company isn’t laying out any cash, so it’s a win-win.”

A few years ago, Chicago-based Ocean Tomo, LLC, one of the frontrunners in the so-called intellectual capital merchant bank arena, pioneered the use of public auctions for IP assets, which is another way for companies to see what the market will bear in terms of valuing their patents.

And, as it turns out, the market will bear quite a lot for blue chip IP. When bankrupt telecom giant Nortel auctioned its 6,000-strong patent portfolio in June of 2011 (not through Ocean Tomo, but Manhattan-based asset management firm Lazard Ltd.), the winning bid from a six-company consortium led by Apple, Microsoft and Research In Motion was an astonishing US\$4.5 billion. Of course there were extenuating circumstances: not only was Nortel’s patent portfolio unusually large and rich, encompassing more than a century of R&D in some of the most important and commercially viable telecommunications markets, but the companies that comprised the winning coalition were desperate to keep the patents from falling into the hands of rival bidder Google.

Indeed, as Vinod Kumar, vice-president of business development for Ottawa-based Conversant Intellectual Property Management points out, there is no guarantee that even patent-rich companies are sitting on untapped goldmines. “Canadians rightly take pride in all the technology innovations that take place here, but just because you have a patent is no guarantee you can monetize it. Ninety-five percent of patents are no good for monetization in the first place.”

Well and good. But that still leaves 5% that can be monetized—free capital that too many boards and executive teams are leaving on the table.

*Photography: China Stringer Network/Reuters.*