Monetization of University Patents

Universities are a major source of innovation. That innovation often is embodied in patents, and many of those patents reflect very fundamental improvements in the technology involved. Universities increasingly are asking themselves whether and how to monetize those patents. Because of the many, often conflicting, interests involved, that is a question which is more complicated for universities than it is for private inventors or companies. For example, there are the professors who created the invention. They generally will want to monetize the invention, both because it typically is in their financial interest, but also because the monetization can reflect the importance of their creation. There also are the university administrators who have responsibility for the university's finances and reputation. Patent monetization can result in very large revenues, as certain universities can attest. Universities, however, also need to take into account potential internal and external sensitivities. They may not want to enforce their patents against infringers (to be clear, very few infringers voluntarily will pay license fees absent the patent owner's willingness to enforce its patents.) Only the university itself can reconcile those interests and decide whether monetization is, on balance, in its interests. We can, however, provide some helpful information to universities which want to address the issue.

First, there needs to be an analysis of the relevant factors in deciding whether to pursue patent monetization. For example, there needs to be a realistic estimate of the value of the patent or patents. Most tech transfer offices do not have the expertise or resources to make that evaluation. Therefore, the valuation is going to have to come from an external source. That source can be an expert the university pays for the valuation. But given the reality that enforcement litigation will be a necessary part of the evaluation, the expert also will have to be expert in patent litigation. Another source can be a contingent fee law firm, but firms may resist investing the time and lack the multi-disciplinary resources required for a robust yet exploratory valuation. The other source are companies like Rembrandt if they have an extensive due diligence team made up of scientists, financial analysts and patent attorneys, who can assist you making that evaluation at no cost to the university.

Second, patent monetization also requires the investment of significant human capital. Unless the university is prepared to turn the case over to the contingent fee law firm with no questions asked, there will be need for significant case management by university personnel. To maximize the probability of success, universities would need to invest substantial resources to case management. Instead of managing an enforcement action itself, universities can work with external parties like Rembrandt to manage enforcement for them. Our staff of scientists, financial analysts, patent lawyers, and litigation specialists devote 3,000 - 5,000 hours of time, at our expense, during the course of the patent monetization effort.

Third and perhaps a gating issue for many universities, is that patent monetization (which almost always includes patent enforcement litigation) is very expensive. A typical patent case involving an important technology and substantial infringement likely will cost between $8 million and $15 million. Most university tech transfer offices do not have that kind of budget for patent monetization. Recent developments in the law promise to make patent enforcement even more expensive and more risky. Therefore, a university which wants to pursue monetization must either retain a contingent fee law firm (most of which will require the university to pay the out-of-pocket costs, which usually will range from $2 million to $4 million), or to enter into an agreement with a firm like Rembrandt.

Finally, no discussion of patent monetization should avoid addressing the highly-charged political atmosphere about "patent trolls." There is not space here to address all of the issues relating to

this subject, but universities have shown interest in the pending legislation which its proponents claim is intended to reduce abusive patent litigation. Indeed, on November 19, the AAMC, the Association of American Universities, Association of Public Universities and Land-grant Universities, American Council on Education, Association of University Technology Managers, and the Council on Governmental Affairs submitted a statement for the record on the so-called "Innovation Act" (H.R. 3309), in which they stated: "We believe that a number of the provisions in the Manager's Amendment are problematic, including the extremely broad scope of civil actions to which fee shifting would apply . . . . We are concerned that [the] proposals would undercut the value of a patent to encourage investment in new technology, which is why patents exist, and how universities use them."

To be clear, there is a problem with a relatively small number of patent owners abusing the patent system, and their abusive behavior should be stopped. We support efforts targeted at stopping the behavior of patent owners which sue large numbers of alleged infringers solely to settle for less than the cost of defense, and those who send letters to end-user consumers to get some money out of them, with no contribution to our economy or innovation. The proposed legislation, however, is extraordinary overkill, will do little to stop the abusers, and will have unintended consequences. But one consequence is certain - it will make it more difficult for all patent owners, including universities, to enforce even quality patents and, therefore, will reinforce the infringers' unwillingness to voluntarily pay reasonable royalties. For example, the proposal to reject the American rule on payment of fees, under which each party bears its own fees, and instead to provide for fee-shifting, will have little effect on abusers, since they do not go to trial. But it will make it less likely patent owners will be willing to bring an enforcement action, and make it more difficult for universities to find companies willing to take the risk of enforcing their patents. The provisions which make changes to the pleading requirements and other procedural changes also will increase the cost of litigation, to the same effect. If adopted, patent enforcement will be the "sport of kings." Only well-capitalized companies like Rembrandt will be able to help universities and other inventors level the playing field with the well-capitalized infringers. In addition, the proposed requirement that patent owners constantly update patent information will add to the administrative burden on universities with patent portfolios.

The increasing numbers of universities which are demanding fair compensation for use of their patents reflects that more and more universities are recognizing that the rewards are sufficiently great not to assume that they won't be. Companies like Rembrandt can help in evaluating and enforcing those interests.

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