

IP Lawyer Finds Opportunity in New Industry: The Intellectual Property Exchange

As intellectual property lawyers and their clients are keenly aware, the cost of resolving intellectual property (IP) disputes through litigation is constantly increasing, and over the past few years, there has been a growing movement in the business world away from traditional practices of “litigate and license.” One of the alternative methods proposed is the intellectual property exchange, whereby users can “purchase” licenses in a market environment based on values and rules established by the market. When a fellow IP lawyer recently took the leap from private practice to work for a company developing such an exchange, I interviewed that lawyer to gain insight into his new position and his employer’s new business model, which offers an alternative (and possibly a challenge) to litigation as the best way to license intellectual property.



Ian McClure’s background in economics and experience as an intellectual property lawyer sparked an interest that eventually landed him a unique new job at Intellectual Property Exchange International Inc. (IPXI). As McClure explains, “In law school, since I had an undergraduate degree in economics, I took a Law and Economics class where we discussed intellectual property transactions. In my third year of law school, I even wrote a law review article on the commoditization of IP assets.” McClure’s fascination with this idea of IP commoditization grew during his time working as an intellectual property lawyer with the law firm Wyatt, Tarrant & Combs LLP, in Louisville, Ky. “While at Wyatt, I saw first-hand the complexity and cost of intellectual property litigation and began to understand that in the current system, licensing of IP is driven for the most part by force under the pressure of litigation, not value of the IP itself. So I kept monitoring developments in alternative methods of IP ‘monetization,’ i.e., the idea of creating value in IP, and was fascinated when I first learned about the ideas which led to the formation of IPXI.”

Intellectual Property Exchange International was conceived of and founded by Ocean Tomo LLC, which had been an innovator of IP monetization for many years. As McClure explains, “When I was in law school, I attended a patent auction hosted by Ocean Tomo in San Francisco as part of my research on the law review article. There was a lot of buzz about the outcome of the auction, and after that first auction, I kept in touch with many people involved

with this developing idea of IP commoditization. In spring 2010, I learned about the formation of IPXI as an intellectual property exchange where, in essence, IP can be traded like other commodities.”

According to the company’s website (www.ipxi.com), IPXI was formed with the following mission:

“to provide a marketplace for a unique portfolio of financial products and services. IPXI provides investment in and risk management of IP assets, enhances efficiency and transparency in the marketplace, enables efficient technology transfer, creates meaningful price discovery, facilitates reasonable, market-based pricing, and helps IP owners unlock the substantial, unrealized value of their assets.”

One of the ways IPXI seeks to enable an IP exchange is the creation of Unit License Right (ULR) contracts. ULR contracts transform traditional private licensing of technology into tradable products that allow buyers to purchase IP assets at market-established prices and to mitigate exposure to IP risk. Through standardized agreements and a more transparent system, including a rulebook developed jointly by industry leaders, IPXI also seeks to protect value in the traded commodities by avoiding the costs and inefficiencies of court litigation.

After McClure left private practice to join IPXI as in-house counsel, I called to ask him some questions about his new position and employer. The questions and his answers follow.

What is your position at IPXI?

Actually, I’m in a hybrid role, because IPXI is still in the start-up stages. My official title is IP transactional associate, but about half of what I do is due diligence and market analysis; the other half is product development and even, sometimes, marketing and sales. Every day is different. One day I may be drafting a Private Placement Memorandum, which is essentially a prospectus of a patent’s worth and related documents for raising investor interest in a ULR offering. The next day, I may be working at a booth at an IP conference or drafting memos on economic, product development, or regulatory issues.

How did your experience in private practice at Wyatt help you in your new role?

The exposure to the litigation side of intellectual

property was invaluable. Learning how the litigation process correlates with licensing helped me understand the incentives of licensing on the transactional side of the equation better. You simply cannot do transactions without understanding the litigation framework that licensing is tied up in.

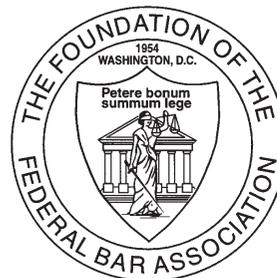
What is the most challenging aspect of your new position?

Market analysis and asset valuation are essentially new to me, so I am working hard to understand and develop the tools to answer the basic question, "How much is this IP worth?" Because there is no historical record (like past royalty rates) of value for the IP I have been working with, analyzing value requires an in-depth study of the potential market. Because we have stringent criteria for the quality of IP that will be licensed on our exchange, I spend a lot of time on these analyses right now. Also, since IPXI is essentially creating the market, there are a lot of regulatory issues to deal with. Luckily, we have a brilliant team, and I am learning a lot very quickly.

What do you see as the future for lawyers working in this and/or other businesses that offer alternatives to traditional bilateral licensing and enforcement through litigation?

Some people look at us as competing with litigation, but I do not completely agree with that assessment. There is no way you are going to get rid of litigation. Instead of trying to completely replace the current system, IPXI is really just trying to expand the market, which should result in more opportunities for patent attorneys and other IP lawyers. There are some indications that as much as 35 to 40 percent of potential IP transactions do not occur because of inefficiencies in the current system, including the lack of real price discovery and the uncertainty and cost of litigation. Specifically, many small to mid-cap companies refrain from open innovation policies because licenses are unilaterally determined by IP owners with stronger bargaining positions. By providing an opportunity for those transactions to occur in a market-based system utilizing price discovery and standard contractual terms, IPXI should encourage growth in the market and provide new opportunities for IP lawyers. We want to shift the current market paradigm from IP as a means to litigation to being a means for transactions and partnerships. Essentially, we seek to foster IP's inclusive value, and not just its exclusive value. In that new paradigm, if embraced by lawyers, the movement toward IP being the legal embodiment of joint ventures and partnerships should provide an abundance of new opportunities. **TFL**

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