

Patent Connections - Life After Death: Liquidation Of Corporate Assets Can Generate Significant Post-Bankruptcy Revenue December 01, 2010

In the inaugural edition of *Patent Connections*, I discussed how private research facilities generate patents that can lead to licensing and litigation. Continuing on this theme, today's article examines how patent litigation can arise out of bankruptcy and similar liquidation processes, and will look at a couple of interesting examples.

When a company is reorganizing or dissolving altogether, patents are treated much like the furniture, appliances and office space. By that I mean, the patents can be determined to have value, and a trustee can decide how that value can be used to the benefit of the estate. Of course, there's a lot more to it than just making a few phone calls and selling to the highest bidder. While everyone can use a chair, patents are only useful to investors with the finances, knowledge and contacts necessary to make the investment pay off. In addition, the person evaluating the estate also has to recognize the patents' value. The failure to do so is the subject of my first example.

Papst Licensing GmbH might be the world's most successful patent licensing business that was founded entirely with patents from a bankrupt company. In the early 1990's, Germany-based Papst Motoren ran into financial difficulty when banks canceled its line of credit, forcing founder George Papst to sell the company. During the sale, Papst was able to buy back the company's patents and applications (apparently numbering around 600), partially because the banks involved didn't attribute much value to them. Although it may have represented a significant financial risk for Papst, it appears to have paid off. Papst Licensing has entered into over 100 licensing agreements, and is listed as one of the 10 most active licensing entities by lawsuit filings. Although specific revenue numbers are not available, Papst's longevity suggests a substantial amount of success (nearly half of its patent lawsuits are dated prior to 2003).

Of course, investing resources in patent assets of bankrupt companies doesn't always provide such rewards, particularly when the lawyers fumble the handoff. Few probably remember internet service provider At Home Corporation, though you may remember affiliated portal site Excite (now operated by IAC). One of the assets of At Home was US Patent 6,122,647, which was transferred after a September 2001 bankruptcy to a holding company for the estate (At Home Liquidating Trust - "AHLT"). However, when handing off the patent, At Home also transferred the rights to any causes of action (i.e. the right to sue for patent infringement) to a different entity (General Unsecured Creditors' Liquidating Trust - "GUCLT"). In 2003, GUCLT sued Microsoft for infringement of the '647 Patent. All of this probably made perfect sense at the time to the people who divided up the bundle of rights, but today it stands as a cautionary tale, stressing the importance of having patent transactions carefully reviewed by a patent practitioner. The lawyers working out this bankruptcy deal probably expected that general bankruptcy principles would apply, making this division perfectly acceptable. However, patent litigation has special rules when it comes to standing, and the appellate court agreed with Microsoft that patent law trumped bankruptcy law in this situation. As a result, GUCLT was not allowed to enforce the patent owned by AHLT.

Lessons learned, the lawyers for bankrupt Silicon Graphics didn't make the same mistake when making the decision to enforce two of its patents in lawsuits against several PC and video game console makers. The holding company, Graphics Properties Holdings, Inc., responsible for these recent lawsuits appears to actually own the patents outright, particularly since the assignment documenting the transfer was labeled as a "change of name." This type of assignment implies that the previous and current owners are technically the same entity. Prior to the bankruptcy, SGL went to trial over one of the two patents at issue in these new lawsuits and lost. That loss was overturned on appeal, and these new lawsuits suggest that Graphics Properties now has the upper hand.

In the meantime, people looking to predict the source of future patent litigation may want to watch the bankruptcy filings, particularly as failed companies look for (e.g. Nortel) and find (e.g. Novell) buyers for their respective patent portfolios.

