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Reprinted from the April 2006 Issue, Vol. 33, No. 4

The Invisible Hand — *Intellectual Property Branding Provides a Competitive Advantage*

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By Dale R. Kluga

If you own a BlackBerry device, the invisible hand of intellectual property (IP) has already touched you. The tiny firm of NTP won a major patent infringement decision against RIM, the Ontario-based maker of the BlackBerry. Fortunately for you, RIM recently agreed to pay NTP $612.5 million to settle. If RIM did not belly up to the bar, NTP was pushing for an injunction that may have resulted in termination of your email service.

IP & the U.S. Economy — The Single Most Critical Factor

As the United States has shifted from a manufacturing to a service economy, IP usage has accelerated rapidly, particularly with increased branding exposure provided by the Internet and other forms of electronic media. Never before has today's advanced electronic world allowed us such an opportunity to level the playing field by using IP to stamp our brand and differentiate our company's services. IP assets, such as patents and trademarks, are a key element to the future health of the U.S. economy.

At a recent economic luncheon, an esteemed group of presenters were asked to identify the single most critical factor impacting the U.S. economy for the upcoming year. One by one, the speakers provided the traditional, crystal ball economic analysis. Then the microphone was handed to perhaps the most successful, and certainly the most candid and sometimes profane, entrepreneur of the century. Taking a fraction of the time to answer, the entrepreneur simply replied, "American intellectual property."

Banks, leasing companies and law firms are all impacted by, and can benefit from creating, managing and protecting IP. Whether you use IP to promote or finance your business, (as our experts will discuss in this article), it already has and will continue to effect all of our lives in dramatic ways.

Bank IP Branding — No More Free Toasters

According to Harris Bank Senior Vice President of Marketing and Customer Strategies, Albert Taylor, "In the 'old days' of free toasters, bank promotion was little more than an incentive to get people in the door. Paying up (with an incentive or with rate) to get people to open accounts actually worked, because they usually stayed five or more years and were profitable in the last four. Intellectual property — in this case, image — was little more than 'safety and soundness' and most banks made minimal investments in their brand."

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>
> — Heidi Hookstadt, *SVP/Marketing*, Cole Taylor Bank

Clearly those days are gone, and the financial service industry is starting to catch up to the mature consumer durables industries (cars, clothes, cosmetics, beverages etc.) where brand is king. Today's financial consumer expects more flexibility and believes bank products are all about the same. It is not uncommon for there to be over a dozen banks, in the typical Chicago suburb. Most of them are equally convenient, so as a consumer, how do you decide which bank is right for you?

In response, many banks, including Harris, understand that they are in a very important battle over customers and need to leverage all of the proven brand building techniques that other industries use every day. Powerful signage that maximizes the leverage of a costly branch network,

engaging merchandising, customer friendly websites, powerful media advertising and even "refreshed" logos are not uncommon.

Since the buying habits that are formed by a non-financial purchase experience inevitably carry over to banking, a relevant and differentiated bank brand becomes an enormous asset. At Harris, we are fortunate to have a strong heritage, a great logo and even a friendly mascot, Hubert, whom Chicago knows and loves. The Harris brand and lion mark are a symbol of unity, signaling to our customers the strength of all our businesses and their collective capabilities. Most importantly we have a brand that is all about people. We believe that, given the opportunity, more financial consumers are looking for a lasting relationship that is built on exceptional service."

> **"Today's financial institutions are no different than traditional engineering and manufacturing businesses when it comes to the use of patents in their arsenal of business tools."**
>
> — William Frankel, *Shareholder*, Brinks Hofer Gilson & Lione

Historically, bank marketing (and its use of IP) has generally been known to lag consumer durables in generating brand equity. The banking world has no choice but to change in order to survive painful margin compression brought on by increasingly intense competition. Regional banks expanding beyond state lines in order to feed portfolio runoff are especially reliant upon IP and its branding benefits. Almost every bank ad now contains a tagline used to differentiate its services in order to attract new customers. The bank business sells the most generic product in the world, money. IP is a great way for a money business to communicate and differentiate its brand identity particularly if it is crossing state lines.

Heidi Hookstadt, senior vice president of marketing for Cole Taylor Bank in Chicago, a premier niche-oriented business bank, offers her bank's insight into IP: "The brand of a business is an example of intellectual property and in my opinion one of the most valuable assets of the company. Historically, Cole Taylor Bank followed suit with all the other banks and focused on what we now refer to as 'tip-of-the-iceberg advertising.' We thought that we were carving out a niche through externally advertising our image and culture before fully developing a consistent understanding of our message within the organization. What we quickly realized is that the 'build it and they will come' approach just does not work well since banks appear very generic to a customer-particularly the very demanding, closely-held business customers.

"Accordingly, we quickly adjusted our efforts to thoroughly develop and communicate our brand message internally before communicating it to the public. Cole Taylor's investment of time and dollars has focused on driving home this brand message internally through education, training and by demonstrating how our employees, referral sources, and board members can all become ambassadors of our brand by living our brand and staying focused on being Chicago's banking specialists for closely-held businesses.

"Our external branding message is working better than ever and will continue to do so as long as we continually strive to communicate our message internally and remain on the same page with our customers. Our relentless and continuous internal emphasis on external brand execution will allow us to accelerate our climb to the tip of the iceberg, one customer at a time."

Bank Owned Lessors & IP — Expanded Expertise

Bank affiliated leasing companies are also independently stepping up to expand their brand identity which allows them to become even more critically important to the overall strategy of their parent company organization. Key Equipment Finance, the captive finance and leasing company affiliated with KeyBank, is one example of this trend.

"In today's competitive marketplace, where margins are increasingly compressed, our success is contingent on differentiating ourselves by offering our clients more than just traditional financial solutions," said Paul A. Larkins, Key Equipment Finance president and CEO. "At Key Equipment Finance we achieve that added value through the intellectual property we gain by training and maintaining a skilled, knowledgeable workforce. We stress our internal C3 brand promise of being 'client-focused, capable and committed,' and each employee is continually urged to focus on those goals. The C3 promise represents a demonstration rather than a statement of our brand. To make this demonstration a reality, it is important that our employees not only build strong skills and understand Key Equipment Finance's products and services but also comprehend our business culture and financial objectives. To this end, we hold informational company-wide employees meetings each quarter and operate our own in-house Leasing University, which offers a full and varied curriculum.

> **"Even if a borrower's intellectual property is not independently valuable, it is often times an essential piece of a creditor's ability to realize upon another asset that may be the primary source of the financing."**
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> — Deborah Schavey Ruff, *Partner*, Mayer, Brown, Rowe & Maw LLP

"Additionally, our sales force is comprised of seasoned financial professionals who do much more than push a finite set of products; they also know how to leverage the full set of services we offer, such as access to in-house legal counsel, skilled tax associates and experienced asset managers. Because Key Equipment Finance is a bank-owned lessor, a bonus portion of our intellectual property is our ability to offer the expanded expertise, products and services of a deep-rooted, broad-ranging financial institution whose capabilities extend well beyond the equipment finance product. All of these components make up our intellectual property which adds up to who we are as a lessor and influences how we go to market."

The independent leasing and finance company is also realizing the increasing importance of IP and the benefits of providing a brand identity to differentiate its products and services from its much larger competitors. Similar to a bank, independents use IP to brand and market existing services which have already been proven in the marketplace. After investing the time and money in your IP, you need to be prepared for the crossroads of dedicating the resources to protect it.

IP Protection — You Ain't Seen Nothin' Yet

If you thought bankruptcy law was complex, as the saying goes, "You ain't seen nothin' yet." By its own definition, IP law is inherently complex and is subject to some of the most detailed, intense, cumbersome and thought provoking legal analysis. The USPTO website (www.uspto.gov) is a good way to baptize yourself into the world of IP. However, whether you are talking about patenting a widget or trade-marking a tagline, here is the best advice you could ever get: hire an IP attorney. While the USPTO is a federal agency that serves the public and will assist you in registering your IP, make no mistake, they will not and cannot provide legal advice.

While federal registration does provide significant protection, a competitor still has the legal right to sue you if your IP has legitimately infringed them. If you are being infringed upon and have decided to take legal action, you need a serious and dedicated game plan before taking any action. Before interviewing IP attorneys, get your ducks in a row. Organize all your evidence, written and otherwise to present to your IP attorney. No different than any other litigation, your attorney is only as good as your evidence. It's also necessary to properly explain your business and how the infringing party competes with or impacted your business. Similar to the acronyms used in our leasing and finance business, you will hear IP legal terms like: identical customers, identical markets, bad faith, confusingly similar, trademark searches, expert witnesses, surveys and the list goes on. The concepts of identical customers and identical markets are especially compelling terms in defending your IP. Hiring a contingent attorney for a lengthy and bureaucratic IP battle is not necessarily the best strategy. The best IP attorney is a precise litigator. Precise in terms of their ability to take rifle shots versus a machine gun approach which is often a red flag and an indication of weakness.

Legal Financing — A Means to Defending the Brand

Oasis Legal Finance, an Illinois-based company with a national presence, is a pioneer in providing financial assistance to plaintiffs and attorneys to more effectively manage the risks of intellectual property litigation. According to Oasis Legal Finance, "the use of intellectual property in marketing initiatives of financial services companies can present great opportunity. However, in a highly competitive market, intellectual property can become a target of theft or misuse. Companies need to be financially prepared to defend their intellectual property. Unfortunately, mounting a solid defense is often a costly endeavor, may carry significant financial risks and can drain a company's resources. For companies with limited capital to begin with, litigation financing resources are available to help mitigate the financial strain of defending intellectual property."

Gary Chodes, CEO of Oasis Legal Finance, has funded a number of intellectual property cases. "Patent cases are some of the costliest and protracted out there, and yet the number of patent suits keep growing each year," says Chodes. "Many businesses turn to litigation financers to help them pursue litigation to its fair end. Instead of taking a smaller settlement or simply giving up, we can offer plaintiffs non-recourse loans to offset the cost of litigation so they can maintain financial stability for their business."

Citing the American Intellectual Property Law Association, in cases worth $1 million to $25 million, patent owners pay $2 million fighting their case. These costs can double with larger values. Finding a finance company that could or would support this type of investment used to be a challenge. However, says Chodes, "Oasis is in a unique position to provide legal financing on the order of this magnitude because we're backed by institutional capital that allows Oasis to offer literally millions of dollars on a single case. Litigation financing from Oasis offers a real solution to the financial risks of intellectual property litigation. Oasis management includes top attorneys from nationally known law firms and financial executives from leading Wall Street institutional financial services companies. They understand the nuances of intellectual property litigation and are accustomed to dealing with complex cases that require a high degree of knowledge and expertise."

IP Liquidity — Unique Challenges to Lenders

According to William Frankel, a shareholder with the prestigious Chicago-based intellectual property law firm of Brinks Hofer Gilson & Lione, "Today's financial institutions are no different than traditional engineering and manufacturing businesses when it comes to the use of patents in their arsenal of business tools. Increasingly, patents are issued to banks, insurance companies, exchanges, online retailers, Internet search companies, credit providers and the like. These patents relate to finance-related technologies, such as smart cards, electronic trading, online auctions, RFID payment devices, order processing, credit verification and more. As strategic business tools, patents can be used to exclude competitors from offering financial products to establish published prior art for defensive purposes, to capitalize on technological investments and innovation and to create bargaining chips for use in resolving disputes over intellectual property.

"As strategic economic weapons, patents can be used to generate significant revenues from divestitures and licensing," Frankel continues. "In recent years, companies such as American Express have used their intellectual property to generate tens of millions of dollars in annual licensing revenue. One prolific inventor by the name of Ronald A. Katz has obtained a large number of patents that are potentially implicated when someone uses a phone in connection with a computer to check a bank balance, perform a credit check or participate in a telephone conference. He has made hundreds of millions of dollars from patent licenses to the likes of AT&T, Microsoft, IBM and American Express. The bottom line message for financial institutions is that patent considerations should be at the forefront of their thinking about business opportunities and risks."

Deborah Schavey Ruff is a partner with the Intellectual Property Group at Mayer, Brown, Rowe & Maw LLP, one of the largest law firms in the world with more than 1,400 lawyers in seven U.S. and six European cities. Ruff concentrates her practice on the strategic management and enforcement of patent and trademark portfolios including the development of global trademark protection and enforcement programs, trademark prosecution, patent prosecution and technology licensing. According to Ruff, "Over the past decade and a half there has been a steadily increasing focus on intellectual property and its proceeds as sources of funding and collateral security. More than ever, intellectual property is being recognized as a valuable component of a company's asset portfolio due in large measure to the growth in intellectual property as a strategic investment. The use of intellectual property collateral is often more attractive than other types of collateral because there is generally a lower credit risk, which results in a lower cost of financing, and pledging intellectual property collateral will often allow a borrower to secure financing without the need to alter its capital structure. Even if a borrower's intellectual property is not independently valuable, it is often times an essential piece of a creditor's ability to realize upon another asset that may be the primary source of the financing. Lenders, however, if not cognizant of the pitfalls surrounding the structuring and perfection of a security interest in intellectual property assets, may find themselves without an enforceable security interest or even jeopardizing the validity of the collateral."

The laws relating to secured transactions are in many respects not completely suited to the unique aspects of intellectual property. The very

nature of intellectual property presents unique challenges to lenders who rely on that property as a source of collateral security. In structuring a security interest in intellectual property, the lender must understand and accommodate the unique and evolving nature of intellectual property, the potential of the intellectual property owner to dissipate the value of the intellectual property, the potential risk of jeopardizing the validity of the intellectual property collateral and the importance of any related property rights.

Generally, state law provides the rules for attachment, perfection and priority of security interests in intellectual property, unless provisions of federal law preempt state law. Because each type of intellectual property, whether patents, trademarks or copyrights, is governed by a distinct body of statutory and case law, a lender must examine each type of intellectual property separately to determine the best method for taking a valid and perfected security interest. Even where state law controls, it is good practice to file a security interest at both the state and federal levels, where possible and practicable, to protect all of the secured creditor's interests.

Finally, consider restricting the borrower's ability to transfer, abandon, or license the trademark collateral and require maintenance of the collateral. Any restrictions or requirements, however, must be reasonably based so as not to impair the borrower's ability to run its business in a profitable manner.

IP Securitization — Only for the Experienced & Creative

Currently, intellectual property assets have been estimated to make up anywhere from 45% up to 80% of U.S. companies' value. While these estimates reflect a broad range, there is no mistaking the increasing importance of intellectual property to a company's bottom line. Moreover, revenues from the licensing of intellectual property are estimated to be in the hundreds of billions of dollars annually. Clearly, intellectual property assets and the revenue streams from the licensing of that intellectual property present an attractive potential securitization option.

In contrast to traditional asset classes, such as credit card receivables, mortgages and the like, future potential receivables from intellectual property assets are much more unpredictable. This is especially true if there is not historic income flow from an established licensing program to consider. When considering a transaction for securitization of intellectual property, the first step is to determine who has full title to the intellectual property income-generating asset. Not only is it imperative to determine who or what entity holds title to the asset, but also that the title is a full right, title and interest (as opposed to joint ownership), and that the owner possesses an unrestricted right to transfer the intellectual property assets to the bond issuing entity.

Additionally, the different kinds of intellectual property assets need to be carefully reviewed to determine whether the right to receive income from the intellectual property is procurable and enforceable in all jurisdictions. For example, certain technologies, such as biotechnology, computer software and business methods, while protectable by patents in the United States, enjoy a far more limited scope of protection in other countries. Moreover, territorial limitations, field of use restrictions and bar dates all have the potential to adversely affect the ability to exploit the intellectual property asset and need to be carefully analyzed.

Intellectual property assets, as well as the laws governing those assets, are unique falling well outside the understanding of more traditional asset classes. Utilizing intellectual property assets in a securitization will present complex challenges. Experience and creativity is needed when considering such a securitization transaction.

IP Future — Here to Stay

Intellectual property is here to stay and will become an increasingly important aspect of our daily lives. Understanding both the marketing and legal aspects of IP Branding determines how we can most effectively use IP to reflect the unique and distinctive value of the services we provide to our customers. As technology advances, so will the IP world and potentially, the viability of the financial services business whether you are a small privately held finance company, or the world's largest bank. **m**

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