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## BlackBerry's patents are a gold mine – if they ditch handsets

By Sean Silcoff

A huge patent sale involving BlackBerry Ltd. raises several questions about the value of its intellectual property stash. The answers might not be what investors would expect.

Three years ago, a consortium including BlackBerry Ltd., Apple Inc. and Microsoft Corp. bought a portfolio of 6,000 Nortel Networks patents for \$4.5-billion (U.S.). On Tuesday, the Wall Street Journal reported the group, Rockstar Consortium Inc., sold 4,000 of the patents to holding company RPX Corp. for \$900-million.

Does that mean the value of patents has collapsed since 2011? Rockstar paid an average of \$750,000 per patent in 2011; it is now getting \$225,000. Indeed, does that mean the value of BlackBerry's entire patent portfolio is worth far less than the \$1-billion to \$3-billion analysts estimate?

The answers aren't as dire as they may appear on the surface. **Desmond Lau**, an analyst with **Veritas Investment Research**, says that even if BlackBerry's 44,000 patents were worth less than half the value of the Rockstar deal – say \$100,000 a patent – “You'd still have \$4.4-billion of value,” well above most estimates.

“That indicates the market is not assigning a very high value” to BlackBerry's patent portfolio, **Mr. Lau** said.

Plus, Rockstar's owners, including BlackBerry, stripped out 2,000 of the 6,000 patents for themselves early on, former chief executive Jim Balsillie said in an e-mail.

“All the best 4G and smartphone patents were picked off,” Mr. Balsillie said.

In other words, it's hard to do an apples-to-apples comparison between the per-patent value of the 2011 and 2014 deals since the shiniest apples in the previous deal aren't part of Tuesday's transaction. “I don't think this is a sign the smartphone patent wars are cooling off” as the [Journal claims](#), Mr. Balsillie said.

If anything, the estimated \$155-million BlackBerry will get in Tuesday's Rockstar deal points to substantial unlocked value in the Waterloo, Ont. company's patent trove. BlackBerry recently formed a division aimed at generating “new revenue streams” from its patents and other technology assets. That's code for “suing and licensing” other tech companies to squeeze dollars out of them for using BlackBerry's intellectual property. BlackBerry isn't overlitigious now, and there is a reason for this. Smartphone makers are in a cold war of sorts, each sitting on a cache of warheads in the form of patents; those mounds of patents mostly keep them in a détente, rather than suing each other all the time (though smartphone makers are plenty litigious).

But say BlackBerry decided to stop making smartphones. It would no longer be bound by the *quid pro quo* among handset makers. Rather than sitting defensively on its warheads to protect a marginal business that commands a sub-1-per-cent market share, it could instead become assertive in demanding licence fees from others. Rather than paying dozens of millions of dollars per quarter to the likes of

Motorola, Nokia and Qualcomm as it now does, BlackBerry could instead haul in big royalties from licensing its technology while continuing to build its software and services business. It's not impossible to imagine BlackBerry pulling in \$400-million or more a year by playing the licensing game, as one intellectual property expert estimates.

Perhaps it would be best for BlackBerry to abandon the keyboard in favour of the cash register; its patent portfolio could be worth much more if it stopped making smartphones than if it continued, as has been the case for other over-the-hill tech companies. BlackBerry "still has complex [intellectual property] decisions to make that depend on what strategies the company ultimately chooses for its hardware business," Mr. Balsillie said.