

Charlottesville company values intellectual property

BY JOHN YELLIG
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Even if they didn't succumb to it, anyone who has donated a car to charity has felt the temptation to exaggerate its value come tax time. Suddenly the old Chrysler that hasn't started in 10 years is a classic worth its full Blue Book value, at least on a tax form.

Such inflated write-offs aren't limited to the family clunker. Donating intellectual property has become a popular tax shelter for corporations and universities, and the degree to which their values can be inflated is seemingly limitless. After all, it's hard to put a price tag on an idea.

Seeking to close the loophole, the Internal Revenue Service is increasing its scrutiny of patent write-offs.

The IRS is no longer accepting a company's assessment of a patent's value. It is getting a second opinion, and oftentimes that opinion is delivered by Charlottesville-based M-CAM Inc.

Founded in 1997 by Dave Martin, a former University of Virginia professor, M-CAM provides technical evaluations of intellectual property.

M-CAM has 16 employees and has offices in Charlottesville and Arlington.

Martin divides his clients into three categories: financial institutions, comprising tax, accounting, insurance and banking entities; government; and companies trying to commercialize their inventions.

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Dave Martin
Founder of Charlottesville-based
M-CAM Inc.

The federal government has become an increasingly important client as it tries to close patent loopholes, which account for \$3.8 billion in lost tax revenues each year, according to a Senate Finance Committee estimate.

"We're in the midst of a two-year effort of uncovering and interdicting one of the leading tax-fraud shelters in the history of the IRS," Martin said. "There are a lot of folks who are appreciative of what we're doing and, as you can imagine, there are a lot of folks who aren't so appreciative."

One sector that is coming under increased scrutiny by regulators is higher education, according to Walter Levering, regional Piedmont/Shenandoah director for the Center for Innovative Technology. Universities often overestimate the value of the research

they conduct on their campuses.

"Oftentimes research universities are the oxes that are gored," Levering said. "There are some universities that aren't particularly happy."

Martin has testified before Congress several times. He said one area most in need of reform is the U.S. Patent and Trademark Office, which for decades, in his opinion, has been too lenient in issuing patents.

Until 2000, patent applications were only reviewed once. After instituting the "second pair of eyes" policy, the patent allowance rate dropped from 85 percent to 17 percent.

Additionally, he said, 50 percent of patents that get challenged are declared invalid, and one-third of the patents issued in the United States and Europe are "functionally redundant," meaning they are issued for the same idea.

The key to improving the profligate patent-issuing policy, Martin said, is to change the way the patent office operates. Currently, it makes its money by issuance and maintenance fees, so it has an inherent conflict of interest when it comes to discretion.

"The incentive is not to do quality, because quantity is what drives their business model," he said. "A lot of patents aren't worth the paper they're printed on."

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