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Patent Connections - From Bottomlines to Headlines: How Private Research Leads To Patent Litigation

November 24, 2010

Greetings, and thanks for reading the first installment of my weekly Patent Calls column, *Patent Connections*. Each Wednesday, I'll be commenting on the role intellectual property, and more specifically, patents play in today's marketplace from a variety of perspectives. This first entry begins a series of columns examining the various sources of patents and how those patents transform from pieces of paper into assets. Today's column discusses how privately funded research turns into patents, and the journey those patents take on their way to generating revenue and, in this example, making headlines.

In addition, today's column also introduces a recent commentary I drafted discussing the monetization efforts based on research funded by Microsoft co-founder Paul Allen. Allen's recent activity has spawned a few melodramatic headlines, such as "Microsoft Co-Founder Launches Patent War" and "Paul Allen vs. The Internet." The Patent Calls Commentary, on the other hand, takes a look at how analytics tools might have been used to predict this lawsuit, and what the analysis suggests about the possibility that future monetization efforts will also result in litigation. The commentary provides a far more in depth view of the patents, and their history, so rather than repeat all of it, I'll just direct you to it, here.

More generally, however, it is actually quite common for research institutions to generate patents, and in those instances the patents can provide a source of revenue, allowing the original investors to recover costs or profit from their investments. Allen's latest company, Interval Licensing, appears to be an example, having inherited about five dozen patents from now defunct Interval Research Corporation (described in this 1999 *Wired* article as an IT research facility and "think tank"). Interval Licensing began monetizing these patents in a variety of ways, including assigning some patents outright to investors, and others to small, venture backed technology companies (although not necessarily at arm's length). Of course, Interval Licensing's biggest splash is its lawsuit from late August of this year, where it sued several internet "giants," including Google, Yahoo!, AOL, and eBay, along with retailers like Staples and Office Depot. While some of the companies named in the lawsuit may ultimately want to have their day in court, the overwhelming majority of all lawsuits end in a settlement agreement prior to trial. In patent cases, such as these, the settlements typically include some form of payment to the patent owner, coupled with a license to practice the patented technology to the defendant. Granted, this is a gross oversimplification, but essentially the patent owner gets what it's after (money) and the defendant gets assurance that it will not need to defend against this patent in the future. (Contrast this with a trial, where even if a defendant may prevail on liability, the patent owner may claim that later modifications to the accused products present a second bite at the apple. Even a ruling that the patent is invalid can be overturned on appeal.)

Interval Licensing is not the only example of private research leading to patent litigation. Quite famously, patents issuing out of research at AT&T's Bell Labs, including US Patent 5,341,457, resulted in one of the largest liability verdicts of all time, $1.5 Billion in favor of Alcatel-Lucent over Microsoft. More recently, Ralink sued competitor Lantiq over US Patent 5,394,116, which it acquired, along with four other patents, from Lucent spin-out Agere Systems (sometime after Agere's merger with LSI). Like the '457 Patent, the '116 issued out of Bell Labs. While AT&T might not realize any direct financial gain from Ralink's monetization efforts, the IP may have provided some benefit when leaving Lucent for the spin-out Agere. Today, AT&T also attempts to monetize its patents through auction at ICAP Ocean Tomo. (See the ICAP Fall Catalog, identifying six separate lots offered by AT&T Intellectual Property, Inc.).

Of course, litigation is not the exclusive vehicle for reaching licensing agreements. For example, General Electric holds a substantial patent portfolio, but files relatively few lawsuits (its current patent battle with Mitsubishi is a rare exception, with court records indicating GE more commonly defending patent lawsuits than initiating them in recent history). However, GE still manages to monetize its portfolio while avoiding litigation, perhaps learning from strategies that date back to the post World War I creation of RCA, and subsequent pooling and licensing of radio and television-related technologies. (Background material about the creation and operation of this patent pool is provided in Inventing the Electronic Century.)