Thar's Gold in Them Thar Patents

Why it pays to protect patent portfolios

By Alexander Poltorak

THANKS TO THE CURRENT recession and ensuing financial crises, higher ed leaders are looking where they have not looked before for the money needed to fulfill their missions. More and more institutions are discovering gold, sometimes lots of it, in their patent portfolios. Some examples:

- 1999: the **University of California** and Eolas Technologies filed a patent infringement lawsuit against Microsoft. In 2003, the case went to trial, and the jury awarded UC and Eolas $520 million. In 2005, Microsoft appealed the decision, and the Court of Appeals for the federal circuit sent it back to district court to be retried. In August 2007 the parties settled the claim for an undisclosed amount.
- 1999: The University of California filed a patent infringement lawsuit against Genentech. The case resulted in a $200 million settlement for UC.
- 2002: **Cornell University** filed a patent infringement lawsuit against Hewlett-Packard. In 2008, the case went to trial, and the jury awarded Cornell $184 million. After Hewlett-Packard announced its intention to appeal the award, the judge reduced the award to $53 million.
- 2003: Texas Instruments and **Stanford University** filed a patent infringement lawsuit against Conexant Systems. After the patent infringement trial, the jury awarded TI $112 million, with no payment of damages paid until all appeals were exhausted. The parties settled on a $70 million lump-sum payment.
- 2007: Centocor (a subsidiary of Johnson & Johnson and the exclusive licensee of an arthritis treatment developed and patented by **New York University**) filed a patent infringement lawsuit against Abbott Laboratories. This June, a jury awarded Centocor and NYU $1.67 billion—the largest patent infringement award in history.

Technology transfer departments can generate hundreds of millions of dollars a year in revenue.

According to Chris Holman of the **University of Missouri-Kansas City** School of Law, higher ed institutions filed 139 patent infringement lawsuits between 2000 and 2008. Although most were filed by exclusive licensees, with universities joining them as co-plaintiffs, 51 were filed by universities alone.

The University of California, Cornell, Stanford, and NYU hit pay dirt pursuing patent infringers. Shouldn't every campus leadership team be wondering if their institution is sitting on a gold mine?

CARROTS AND STICKS

More and more colleges and universities are hiring technology transfer managers who are responsible for generating revenue by licensing out university patents to industry. Licensing, however, comes in two varieties: "carrot" and "stick."

A "carrot license" is a license taken voluntarily by a licensee that is not yet using the patented technology and is under no compulsion to license it. A value proposition in carrot licensing is "license our patent because our patented technology is better and you can make more money with it." Carrot licenses tend to be exclusive, as the licensee wants to be assured of exclusivity before investing in developing the patent technology.

A "stick license," on the other hand, is an exercise in assertive licensing, appropriate when the patented technology is already in use by a patent infringer. In this case, the value proposition is "license our patent, or we'll see you in court." Stick licenses are usually nonexclusive, that is, a covenant not to sue. Unfortunately, litigation cannot always be avoided. If the infringer refuses to take a license, assertive licensing turns into patent enforcement, i.e., patent infringement litigation. In reality, every carrot license is a stick license in disguise—if not for the unspoken threat of litigation, who would ever license a patent, which, at the end of the day, is nothing more than a right to sue for infringement?

Technology transfer managers typically do carrot licensing. They promote and market the university's patent ▶

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portfolio to industry and find businesses to commercialize some of those patents. There are tech transfer managers and technology transfer departments that generate tens of millions of dollars—even hundreds of millions of dollars—a year in revenue that is essentially found money for the school.

FINDING INFRINGERS

Few institutions get as aggressive as UC, Cornell, Stanford, and NYU. But neglecting stick licensing has two problems. First, it results in a loss of potential royalty and damages revenues from infringed patents. Second, it undermines carrot licensing of both infringed and noninfringed patents. If an industry perceives a lax attitude on the part of a university in enforcing its patents, it will think it can infringe with impunity. Under these circumstances, taking a license would be tantamount to making a charitable gift, which few in this economic climate are inclined to do.

Most higher ed institutions leave it up to their licensees to enforce the patents or, worse yet, think it is beneath them to enforce their patents. The proponents of this philosophy claim that a university's mission is to serve the public and the greater good and not to litigate.

This position makes little sense. Universities invest millions of dollars in R&D and produce much of the cutting-edge science that eventually makes its way into drugs and new technologies. It behooves them to obtain a return from this investment that can be put back into research to produce more cures and cutting-edge science for the greater good. The patent that resulted in the $1.67 billion settlement for NYU and its exclusive licensee, Centocor, was for an arthritis medicine sold under the Remicade and Numira brands.

Although a patent is a right to exclude others, it doesn't come with its own police. It remains the responsibility of the patent owner to identify infringers and enforce the patent. The greatest obstacle facing an institution—or any patent owner—is identifying who is infringing its patents. There are a number of policies and procedures that can be implemented to identify possible patent infringers. These include reverse patent citation analysis, market studies, and interviews with the university researchers who are identified as inventors on the patents.

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In countless conversations with tech transfer managers, most have expressed to me the same frustration: They must cut through red tape and work their way through layers of bureaucracy when it comes to enforcing university-owned patents. One needs approval of the general counsel, the president or the provost, and possibly the board of trustees. Such approvals are hard to obtain, since various constituencies have different reasons not to approve filing a patent infringement lawsuit. It's no wonder that relatively few are ever filed by higher ed institutions.

PATENT ENFORCEMENT HELP

Hiring a law firm that specializes in patent litigation to represent the university can be a solution, although the cost of patent infringement litigation can be millions of dollars. In addition to legal fees, there are disbursements. These are out-of-pocket litigation expenses such as filing fees, as well as costs for document production and discovery, taking depositions, expert witnesses and jury consultants, audiovisual services, trial demonstratives, and travel. These expenses quickly add up to hundreds of thousands of dollars and can easily exceed a million dollars.

Companies such as mine specialize in patent enforcement without being law firms. They can manage the entire process—hiring and managing a patent litigation law firm to actually litigate the lawsuit—and cover all expenses. Patent enforcement firms operate on a 100 percent contingency basis, recouping the fees for the law firm and all out-of-pocket expenses and their management fee from any proceeds produced by the lawsuit (or lawsuits, if there happen to be multiple infringers). Should a patent infringement action fail, the patent enforcement company absorbs all of the losses and the university pays nothing.

Patent enforcement firms offer another subtle but significant benefit: They transfer the patent to a special-purpose entity. The patent enforcement firm sets up an LLC that owns the patent, and the new entity is the plaintiff in the lawsuit. This is no different from creating a university spin-off with a mandate to monetize specific university patents. If litigation ensues, it is the spin-off, not the university, who will be the plaintiff in the lawsuit. This reduces the involvement of the university and any negative publicity that could result from the lawsuit.

The member lists of The Association of University Technology Managers (www.autm.net), Licensing Executives Society (www.lesusacanada.org), or the Intellectual Property Owners Association (www.ipo.org) can provide ideas about who to work with.

Remember, a patent is a wasting asset. Sooner or later it will expire. An important factor in computing patent infringement damages is the remaining years on the patent. Leaders at higher ed institutions with a patent portfolio of any size must take a serious look at those assets to determine if there's revenue that could be realized with minimal effort, modest costs, very little risk, and some old-fashioned gumption. After all, to paraphrase the crusty old prospector in the 1948 western *Yellow Sky*, "Thar's gold in them thar patents!" U