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Assertive Licensing Boosts Value of Dormant Patents

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A patent does not appear on a business's or other organization's balance sheet like real estate, equipment, inventory or good will does, so many patents are unrealized assets that could actually be of great value. Yes, patents are indeed assets, even if they occasionally don't get used right away and they are assets that can usually be licensed, enforced, used as collateral or sold. Whether the patent owner is a university, an individual inventor, or a business, a monetization campaign often is necessary to fully realize the patent's value.

History was made early last summer, on June 29, 2009, when a jury in Marshall, TX, granted the largest patent award verdict in US history. As a result of the verdict, Abbott Laboratories was ordered to pay $1.6 billion to Centocor, a Johnson & Johnson subsidiary, because its Numira arthritis treatment was found to infringe US patent 7,070,775. The patent was developed at New York University and licensed exclusively to Centocor, which makes a medicine called Remicade that competes with Numira. The jury was out for five hours before returning their verdict, which specified $1.17 billion for lost profits and $504 million as a reasonable royalty.

Earlier in patent history, the second-highest patent verdict was a $1.5 billion award that Alcatel-Lucent won against Microsoft, but that was later overturned. The third largest patent award, and still the largest ever enforced, was a $909,457,567 judgment for Polaroid in 1986, a suit that ultimately wiped out Kodak's full line of instant camera products.

While these landmark cases are rare, it certainly would pay licensors—be they corporations, universities and other owners of dormant US patents—to look where they have not looked before for new sources of revenue. More and more owners of dormant patents are discovering gold, sometimes lots of it, in their patent portfolios. Here are a few recent examples:

- The University of California and Eolas Technologies filed a patent infringement lawsuit against Microsoft Corporation. In 2003, the case went to trial, and the jury awarded UCal 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 re-tried. In August of 2007 the parties settled the claim for an undisclosed amount.
- Cornell University filed a patent infringement lawsuit against Hewlett-Packard Company. In 2008, the case went to trial, and the jury awarded Cornell $184 million. Hewlett-Packard announced its intention to appeal the award, and the judge reduced the award to $53 million.
- Research in Motion (RIM), the maker of the Blackberry wireless email device, settled its long-running litigation with a tiny firm called NTP for $612.5 million ahead of a US judge's expected ruling on the case.
- Dr. Bruce Safran won $432 million in damages from Boston Scientific Corporation in a case regarding drug-eluting stent technology. It was the largest damages award of 2008.
- A US court ordered Microsoft to pay $537 million to an Australian inventor named Ric Richardson after determining that the world's largest software maker infringed Richardson's patent on a method of deterring software piracy.
- In another David vs. Goliath case, Microsoft was found liable for patent infringement and ordered to pay $290 million to a Canadian company called i4i. What's more, the court awarded i4i a permanent injunction on Microsoft's sales of its Word product unless the infringing XML editor was removed from the software.

Clearly, there is money to be made in enforcing infringed patents—patents that you're paying maintenance fees on anyway. And for those inventors, businesses and universities that are concerned about the risk and expense of patent litigation, there is good news in the form of patent enforcement firms.

These companies are not law firms, but specialists in patent enforcement (or "assertive licensing" as it is also known), offering a comprehensive, seamless, turnkey patent enforcement program. The better patent enforcement firms manage the entire process, hiring and managing a patent litigation law firm to actually try the lawsuit, and covering all expenses. Patent enforcement firms operate on a 100 percent contingency basis. They recoup the fees for the law firm, all of their out-of-pocket expenses and a success fee for themselves from any proceeds produced by the lawsuit (or lawsuits if there are multiple infringers). Should the patent infringement action fail, the patent enforcement company absorbs all of the losses and the patent owner pays nothing!

The best patent enforcement firms offer another subtle, but significant, benefit: Through a unique business model, 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. The original patent owner has an ownership interest in the LLC, but since the LLC is the plaintiff in the lawsuit, and not the original patent owner, this arrangement significantly reduces the patent owner's liability should the defendant launch retaliatory litigation.

This article takes a look at three types of patent owners: (1) individual inventors, (2) small- to mid-sized businesses and (3) universities. Some of the concerns of these patent owners are examined along with how a patent enforcement firm can help them monetize their patents with minimal risk. First, though, a distinction between two different approaches to licensing must be made.

The Carrot and the Stick

Licensing comes in two varieties: (1) carrot and (2) stick. A "carrot license" is a license taken voluntary by a licensee that is not yet using the patented technology and is under no compulsion to license it. The value proposition in "carrot" licensing is essentially "license our patent(s) because our patented technology is better and you can make more money with it." Carrot licensees often are exclusive, because licensors often want exclusivity before investing in developing the patented technology.

A "stick license," on the other hand, is an exercise in assertive licensing that is appropriate when the patented technology already is in use by an infringer of the patent. In this case, the value proposition is "license our patent(s), or we'll see you in court." Stick licenses are usually non-exclusive. A non-exclusive license, in essence, is a covenant not to sue, and is usually taken to avoid (or settle) litigation. 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 engage in carrot licensing. They promote and market the patent portfolio to industry, and find businesses to commercialize some of those patents. There are technology transfer managers and departments that generate tens of millions of dollars, even hundreds of millions of dollars a year in revenue that is essentially found money! Because carrot licensing can be very lucrative by itself, many patent owners prefer that approach over stick licensing.

Neglecting stick licensing, however, has two problems. First, it results in a loss of potential royalties and damages revenues from infringed patents which could amount to hundreds of millions of dollars. Second, it undermines the carrot licensing of both infringed and non-infringed patents. If an industry perceives a lax attitude on the part of an inventor, business, university, or other patent owner in enforcing its patents, it will think it can infringe with impunity. Under these circumstances, taking a license would be tantamount to giving the patent owner a gift, which few in this economic climate are inclined to do.

Although a patent is a right to exclude others, it doesn't come with its own police protection. It remains the responsibility of the patent owner to identify infringers and enforce the patent. The greatest obstacle facing any patent owner is identifying who is infringing its patent(s). 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 named inventors on the patents.

Individual Inventors and Patent Enforcement

Individuals who own patents but avoid enforcing those patents have their reasons: The daunting prospect of going it alone against a large corporation, fear of having their hard-earned patent(s) ruled invalid and, of course, fear of losing their life's savings and everything else they own.

More often than not, an independent inventor will patent his or her invention without having a plan of how to bring it to market or how to monetize it. An inventor often will go for the "carrot" approach first—inventing with the idea of approaching a specific company, or various companies, that already manufacture products in that industry, with the offer of a license on the new product or technology. When the licensing offer is ignored or rebuffed, which is usually the case, and the inventor subsequently sees the patented invention beginning to appear on store shelves, often offered for sale by the very company he approached, "stick" licensing through patent enforcement becomes the only recourse for monetizing the patent.

When a lone inventor goes up against a corporation, there is the potential for soaring success or crushing failure and that's even if you win. For example, Robert Kearns, the subject of the recent film "Flash of Genius," ultimately won his decades-long litigation against Ford Motor Company and Chrysler Corporation. But his win was at the cost of his marriage, his savings, and, for a time, even his mental health. Kearns won $30 million in settlements from Ford and Chrysler, but his obsession and frustration with the court cases left him little time or energy to enjoy the money he recovered. However rare it was in the first place, this turns out to be a Pyrrhic victory.

Often, the patent battle seems uphill even from the start, especially when a lone inventor has made valiant efforts to have a manufacturer license the patent, only to find it infringed shortly thereafter. For an example of just such a David versus Goliath battle, see *Steamway Corporation et al v. Birds Eye Foods, Inc.*, filed in Federal District Court for the Southern District of Indiana in August 2009. Inventor Gary Hopkins developed plastic containers with pinholes and steam vents, an invention designed to act as a sort of pressure cooker inside a microwave oven—retaining moisture and reducing cooking time. Hopkins obtained seven patents on his invention and showed prototypes to major food packaging companies such as Clorox and Birds Eye, both of whom signed nondisclosure agreements.

But when it came time to talk licensing terms, Hopkins says, Clorox and Birds Eye stopped returning his calls and subsequently launched their own microwaveable storage containers very similar to his prototypes (which were not returned to him). Now Hopkins is nearly broke, his company which once produced frozen meals under the brand "Captain Hop's" is defunct, and he fears losing his 90-acre farm.[1] His patent litigation case could very easily outlast his few remaining resources.

Besides the risk of losing one's life savings or home, or having the patent invalidated in the process of suing infringers, there is always the additional unpleasant possibility that the inventor will be labeled a "patent troll" and vilified for not practicing the patented invention. But again, being granted a patent does require the inventor to "practice" (use the patented invention in a product or service) the invention. And being an inventor does not magically confer manufacturing or marketing skills to the patent owner. People who call patent owners who dare assert their patents, "Patent Trolls" either don't understand or purposely ignore a simple fact that the patent is a *quid pro quo* for invention disclosure, not for practice of the invention. Be that as it may, when the carrot doesn't work, the stick must follow.

A patent enforcement firm that offers patent assertion on a contingency basis is a far safer avenue for individual inventors who may lack the funds to pay legal fees and out-of-pocket expenses and lack the knowledge of patent law and litigation experience.

Small Businesses and Patent Enforcement

Like individual inventors, business owners are concerned about the time and expense of patent litigation. It usually takes more than two years from filing the complaint until commencement of trial; sometimes much longer. A patent infringement lawsuit can easily cost millions of dollars in attorney fees and hundreds of thousands of dollars in litigation expenses (or "disbursements"). The median cost of a patent infringement lawsuit with damages between $20 to $100 million is $5.5 million. Add to it 20 percent for out-of-pocket expenses and you get the picture. War used to be called the sport of Kings. Patent litigation is the sport of rich and powerful corporations. Add to that the very real risk of having the patent ruled invalid or unenforceable and the odds are not good for a patent owner. Patentees lose about 75 percent of the time in lawsuits against infringers.[2]

Winning a patent infringement lawsuit requires tact and knowledge of the patent litigation process. For example, business owners, in fact, any patent owner that goes up against corporations who are accustomed to being sued and have an internal IP department, should beware of a declaratory judgment action (DJ) by the infringer. In about 8 percent of all cases, the infringer files a declaratory judgment asserting that the infringed patent is invalid, unenforceable or not infringed. This tactic turns the patent owner into the defendant rather than the plaintiff and that gives the alleged infringer the advantage in court, particularly in a jury trial where the plaintiff is always at an advantage.

Many businesses, universities, and individuals turn to patent enforcement firms to have their case enforced on a contingency basis. This removes the risk and the expense of patent litigation, putting it in the hands of experts who manage and fund the whole process, leaving the business owner free to focus on running his business. Patent enforcement firms are skilled in avoiding the aforementioned, dreaded "DJ actions."

The biggest danger, however, lies in a very real possibility that the infringer, usually a larger company with larger patent portfolio, will counter-sue the small business for patent infringement of one of its own patents forcing the smaller business to defend itself in another lawsuit potentially facing a permanent injunction. Transferring patents into another special-purpose entity, an LLC, that will act as the the plaintiff in the lawsuit is usually advisable. Although this does not eliminate this risk entirely, it reduces it considerably.

Universities and Patent Enforcement

More and more universities are hiring technology transfer managers who are responsible for generating revenue by licensing the university's patents to industry. Most schools of higher education, however, either leave it up to their licensees to actually enforce the patents or, worse yet, think it is beneath them to enforce their patents. The proponents of this philosophy claim that, as institutions of higher learning, a university's mission is to serve the public and the greater good, and not to litigate. They believe it will reflect poorly on the university if its name appears as the plaintiff in a lawsuit.

This position, needless to say, makes little sense. Universities invest millions of dollars in R&D, and subsequently produce much of the cutting-edge science that eventually makes its way into drugs and new technologies. It behooves universities to obtain a return from this investment, producing funds that can be put back into research to produce *more* cures and cutting-edge science for the greater good.

In countless conversations with university technology transfer managers, most expressed 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 to get the approval of the General Counsel, the President or the Provost, and possibly the board of trustees. Such approvals are hard to obtain because various constituencies have different reasons not to approve filing a patent infringement lawsuit. It is no wonder that relatively few patent infringement lawsuits are ever filed by universities.

As in the case of small businesses and individual inventors, patent enforcement on contingency by a PLEC is a smart, safe alternative, especially if the patents are assigned to a separate LLC. For universities, transferring patents to a newly-created LLC for the purpose of patent enforcement is no different from creating a spinoff with a mandate to monetize specific patent(s), which is a fairly common practice. If litigation ensues, it is the spinoff that is the plaintiff in the lawsuit, not the university. If the actual transfer of the patents involves too much red tape, a grant of an exclusive license to an LLC may be sufficient. One needs to be careful in this case not to limit the license in any way nor to have any reversionary rights, which may undermine the standing of the LLC to bring a lawsuit.

Another advantage of this approach is that it reduces the involvement of the university and any negative publicity that could result from the lawsuit. Clearly, using a patent enforcement firm to pursue patent infringers is the alternative with no costs, no risks, and minimal management of the process by university officials.

Conclusion

A patent is a wasting asset—it will expire 20 years after the filing date. Moreover, as the patent owner can only recover past damages for up to six years prior to filing a lawsuit, delaying patent enforcement can erode recoverable damages. This is not to mention latches—an unreasonable delay in enforcing the patent rights—which may prevent the patent owner from recovering any past damages. Patent is a valuable asset and, as with any asset, there is an affirmative duty on business managers and executives to exercise duty or care in managing these assets. Any business, inventor, or university with a patent portfolio of any size has to take a serious look at those assets and determine if there's revenue that has not yet been realized, but *could* be realized with minimal effort, modest costs, very little risk, and some old-fashioned gumption through assertive licensing and enforcement of infringed patents. After all, patent is nothing more than the right to sue for infringement. If it was worth obtaining, it may be worth enforcing!

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3. *See* "Patent litigation trends and the increasing impact of nonpracticing entities," *http://www.pwc.com/us/en/forensic-services/publications/assets/2009-patent-litigation-study.pdf*.
4. *See http://www.chtlj.org/sites/default/files/media/symposiums/v025/slides/holman.ppt*.

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