

US patent values decline in 2006

Patent values in the US, as determined by the top 25 litigation awards/settlements, took a tumble in 2006, dropping from US\$5.1 million to US\$3.1 million

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The declining values revealed by an examination of the 25 biggest awards and settlements in the US during 2006 perhaps suggest a deflation in the patent euphoria (dare we say, bubble) of the early millennium. Back then, a flood of patent grants, the opening of the rocket docket and the spread of dotcom fever appeared to turn every patent into a land grant claim.

The bloom is off the bush now as the USPTO has increased its number of examiners and reexamined, not only a number of its previous grants, but its granting process, and both the legislature and the courts have stepped in with tough questions, if not – yet – with answers. Indeed, perhaps the most dampening impact on patent values, whose full effect is still to be seen, was the Supreme Court's decision in *MercExchange v Ebay*, in which the Court decided against the ready application of permanent injunctions. Still, even without the high court's hand waving, the marketplace (ie, the lower courts) were already signalling a dampening down in patent values.

The decline in both the average and cumulative patent value was aided, in part, by a willingness to re-examine, if not rationalise, the economics of patent value – not just the costs/benefits of litigation, but the true contribution to economic value creation. This newfound religion came at the behest of the courts, of course, but, encouragingly, it appeared to take with both plaintiffs and defendants alike. Some of the more highly visible, and contentious, cases that demonstrated this surprising willingness to reconsider and resolve their value differences included:

- Freedom Wireless agreed to accept US\$55 million from Boston Communications Group in 2006, after having won a jury verdict the previous year totalling US\$148 million.
- Rambus elected to remit part of its US\$306 million award, from its April 2006 victory over Hynix; agreeing to accept US\$133 million in lieu of a grant for new trial.
- Research In Motion, in its much publicised, long fought battle with NTP, agreed to increase its settlement payment to US\$613 million – from the US\$450 million previously agreed – albeit with a little help from the threat of a permanent injunction.
- Nellcor, a division of Tyco Healthcare, after losing its appeal in its US\$164 million suit with Masimo, agreed to settle all claims for US\$265 million, plus a US\$65 million advance royalty payment for 2006.

And the winner is...

The biggest winner in 2006, aside from NTP and Masimo, was perhaps InterDigital Communications, a maker of 2G and 3G wireless technology used in mobile phone handsets. In 2006, the company won settlements of US\$253 million and US\$134 million against Nokia and Samsung respectively. But litigation is not the only path for InterDigital. The company also entered into a major licensing deal with LG Electronics, of Korea, for US\$285 million. In fact, the company has a long history of licensing and litigation, showing a classic, and successful, two-handed strategy of olive branch and war club.

Another big winner, if not monetarily, at least symbolically, was Tivo. After several

Patent value – 2006 Litigation awards/settlements

Count	Date	Defendant	Plaintiff	Amount (US\$M)
1	3/1/2006	Research in Motion	NTP	613
2	1/24/2006	Tyco International	Masimo Corp	330
3	4/27/2006	Nokia	InterDigital Comm. Corp	253
4	2/7/2006	Mosanto	Reagents, Univ. of Calif.	200
5	7/28/2006	Hynix	Rambus	133
6	9/6/2006	Samsung	InterDigital Comm. Corp	134
7	4/19/2006	Microsoft, Autodesk	Z4 Technologies	133
8	7/12/2006	Alcon Inc.	Advanced Medical Optics	121
9	7/7/2006	Direct TV	Finisar Corp	115.9
10	8/28/2006	ABC/NBC/CBS/Fox	Echostar Comm.	100
11	8/24/2006	Apple	Creative	100
12	1/26/2006	Media Tek Inc.	Zoran Corp.	85
13	9/6/2006	Start Licensing	Advanced Cell Technology Inc	80
14	7/27/2006	Microsoft	Lee Keung-hae	75
15	12/5/2006	Medtronic	Dr. Eckhard Alt	75
16	4/14/2006	Echostar Comm.	Tivo	74
17	5/5/2006	Conexant Systems	Texas Instruments	70
18	7/21/2006	Teva Pharmaceutical Ind.	Pfizer	70
19	5/31/2006	Eli-Lilly	Ariad Technologies	65.2
20	1/24/2006	Tyco International	Applied Medical Resources	64.5
21	9/15/2006	Zebra Technologies Corp	Paxar	63
22	7/24/2006	Boston Comm. Group	Freedom Wireless	55.3
23	7/22/2006	Chunghwa Picture Tubes	LG Philips LCD Co.	53.5
24	10/6/2006	Thomson Financial	MuniAuction	38.4
25	1/23/2006	Medtronic	Edward Lifesciences Corp	37.5
Total				3,139.3

attempts, the company finally prevailed in asserting its groundbreaking digital video recording technology, with a US\$74 million verdict against satellite communications giant Echostar; which itself won a collective \$100 million from the network media companies.

From an industry standpoint, broadcast media, which includes TV/video and music, was one of the more active and high-profile segments with four cases involving nearly US\$400 million in settlements and some of the biggest names within its industry. Medical devices also had four cases totalling more than US\$500 million, however, two-thirds of this amount involved the Masimo/Nellcor litigation.

But the industry king was telecom in 2006, with four cases worth over US\$1.1 billion, at an average of US\$264 million. While the result is a zero sum for the industry, it does perhaps signal a rise from the ashes, both in terms of the importance of its technology and the health of its industry. Aside from the collective chill that swept over “crack berries”, consumers were little harmed by the huge amounts of money that changed hands. And the companies themselves, RIM in particular, have taken the hits in their stride and done quite well financially.

In comparison with 2005, telecom, along with broadcast media, showed the greatest gains across the board: total amount; average amount; and number of cases. Perhaps not surprisingly, all eight cases involved some form of wireless technology – voice, video, music, email. On the flip side, medical devices and semiconductors registered the biggest declines in 2006, with total settlement amounts falling by more than US\$1.5 billion and \$1 billion, respectively.

And finally, there was little talk of the trolls in 2006, not that they have gone away. The patent licence companies are here to stay. They are proliferating, getting bigger and more sophisticated, and by their collective action forcing the larger companies to recognise what they previously would not dare allow themselves to admit: patents have value irrespective of ownership; not that the value is always positive!

The decline in patent values is a good thing for owners, users and the marketplace. It perhaps signals a rationalisation of value perspectives, a willingness to compromise and a clearinghouse for commerce. ■

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Industry summary 2006

Industry	Number of cases	Amount (US\$m)	Average	Percent share of amount
Biotechnology	2	280	140.0	9%
Broadcast media	4	389.9	97.5	12%
Electronics	2	116.5	58.3	4%
Medical devices	4	507	126.8	16%
Miscellaneous	1	38.4	38.4	1%
Pharmaceuticals	3	256.2	85.4	8%
Semiconductor	3	288	96.0	9%
Software	2	208	104.0	7%
Telecommunication	4	1,055.3	263.8	34%
Grand total	25	3,139.3	125.6	100%

Industry summary 2005

Industry	Number of cases	Amount (\$m)	Average	Percent share of amount
Biotechnology	2	63.9	32.0	1%
Electronics	2	92.2	46.1	2%
Medical devices	5	2,439.9	488.0	48%
Miscellaneous	4	114.2	28.6	2%
Pharmaceuticals	2	447.0	223.5	9%
Semiconductor	6	1,371.2	228.5	27%
Software	3	485.0	161.7	10%
Telecommunication	1	43.1	43.1	1%
Grand total	25	5,056.5	202.3	100%