Randolph Square

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Litigation Finance Newsletter

Where to Plant a Tree Twenty Years Ago

Splintered patents, ignored infringement, and the rise of ex-post licensing

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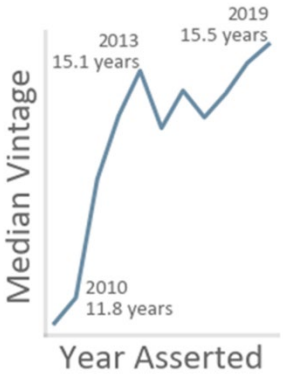
"The best time to plant a tree was twenty years ago. The second-best time is now." With pandemic-induced market turmoil, investors might joke about the old Chinese proverb and a preference for past, rather than future, revenues. At Randolph Square, we see a little irony; after all, ex-post (and ex-ante) licensing give patent owners a claim to exactly twenty years of past (or future) revenue.

The patent system did not always emphasize ex-post claims for past revenues. In association with a 1973 Hawaiian infrastructure contract bid, for example, one patent owner's "common practice [was] to advise prospective bidders for construction of ocean pipelines that [it] would grant a license for the use of the patented method and apparatus."[1] The forward looking focus characterizes what Judge Trenga of the Eastern District of Virginia called, in paraphrasing a 2013 brief by Capital One, "the 'ex ante' technology licensing market (where companies assess competing technological solutions before making investments…)."[2]

Times have changed since *Underwater Devices*. "[T]he nature of the patent being enforced and the economic function of the patent holder present considerations quite unlike earlier cases,"[3] noted Justice Kennedy in 2006. He called out a continuing trend – **the splintering of patents**, cases where "the patented invention is but a small component of the product."[4] The opinion concurred with the precedential ruling that removed undue leverage from the threat of injunction. Changing common law marked a shift towards ex-post, a trend still evident in Judge Trenga's 2013 paraphrase of a brief by Capital One:



> *[I]t is impossible to determine, before it commits to technological solutions, which publicly disclosed patents may be infringed by its technological choices. It candidly concedes that, as a practical matter, it has implemented its technological solutions based on the assumption that its potential* ***legal exposure for patent infringement can be ignored, or later managed economically, since an individual patent holder would typically lack the resources*** *or the economic incentive to enforce.*[5]

Data from Lex Machina and our Analytics practice suggest Capital One's behavior is typical: 2013 was the third straight year where the median vintage of a patent in-suit was 1997. Older patents suggest litigants are increasingly sorting out licensing terms after the fact (i.e., ex-post).

Where some see a broken patent system, we see a call to action. The Analytics team at Randolph Square uses a data-driven approach to help operating clients with the seemingly "impossible" task of understanding the competitive landscape and freedom to operate. The Patent Litigation Finance team, in turn, underwrites the "individual patent holder [who] would typically lack the resources… to enforce."[6] The art is identifying meritorious claims, or investment grade opportunities – proverbially, where to plant a tree twenty years ago.

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[1] *Underwater Devices Inc. v. Morrison-Knudsen Co.*, 717 F.2d 1380, 1384 (Fed. Cir. 1983).
[2] *Intellectual Ventures I LLC v. Capital One Financial Corp.*, No. 13-cv-740-AJT-TCB Doc. 161 at 3 (E.D.Va., Dec. 18, 2013).
[3] *eBay Inc. v. MercExchange, L.L.C.*, 547 U.S. 388, 396 – 397 (2006) (Kennedy, J., concurring).
[4] *Id.*
[5] *Intellectual Ventures, supra* note 2, at 13 (footnote omitted) (emphasis added).
[6] *Id.*