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Ibm patent income slips godfather deals

"Even as IBM has sued an increasing number of companies, its IP income has shrunk," reports Bloomberg: Intellectual property rights historically brought in more than \$1 billion a year, on average, helping offset massive research and development costs and shrinking revenue. Last year, IBM's income from intellectual property was \$626 million, its lowest point since 1996, and 2019 wasn't much higher. While it continues to secure license deals, they are fewer and harder-won, with companies like Airbnb Inc. and Chewy Inc. waging battles in court... In February, online pet-food seller Chewy requested a court order to block a \$36 million patent fee IBM is demanding. Chewy accused IBM of "seeking exorbitant licensing fees for early internet patents having no value." IBM's claims against Chewy include years-old inventions such as targeted advertising and content resizing based on cursor activity, both ubiquitous on the web. Chewy said IBM doesn't make or sell products covered by the vast majority of the thousands of patents it has received over the past 20 years, but instead just threatens to sue if companies don't agree to pay for licenses. IBM has not answered Chewy's complaint, and no trial date has been set. Companies that use their IP licensing aggressively as a way to make money are often referred to as patent trolls. However, IBM's position as the largest aggregator of U.S. intellectual property is more akin to being a patent godfather, says Robin Feldman, a law professor at the University of California, Hastings. With more than 38,000 active patents in its portfolio, and thousands of license agreements bolstering its legitimacy, IBM's demands have traditionally gone unchallenged, Feldman said. Such patent godfathers, with large portfolios, are "able to make offers that can't be refused." Even some of the most innovative technology giants have licensed IBM patents over the years. Alphabet Inc.'s Google, Amazon.com Inc. and LinkedIn are among countless companies that have had to pony up. IBM also has long served as a patent bank for young companies to jump-start their portfolios. Facebook Inc. was not yet public in 2012 when it bought 750 patents on software and networking from IBM. As Instacart Inc. prepares to go public, it purchased almost 300 IBM patents in January ranging from e-commerce to smart shopping bags. Noting a series of Supreme Court verdicts making it easier to invalidate a patent, Feldman, the law professor, told Bloomberg that "Being the godfather isn't what it used to be. It's not that patent aggregation as a business is over. You just make less money." For most years since 1996 IBM, the perennial annual U.S. patent recipient and licensing leader, generated \$1 billion or more in intellectual property revenue, \$27 billion in total. Over 2019 and 2020, however, Big Blue generated only about \$600 million in direct IP income, \$626 million in 2020, to be precise. This comes amidst overall decline in company revenue. It is unclear if the decline is an aberration due to changing technology or a secular change regarding how IP is valued and monetized, brought on by adverse legislation, unsympathetic courts and emboldened licensees. As recent at 2016 IBM produced \$1.7 billion in IP licensing, much of it from patents, but a significant amount from copyright, brand and know-how related deals with clients and even competitors. Moreover, IP revenue is typically high-margin income, much of which goes to the bottom line and enhances earnings per share. Effective Monetization "The value of patents isn't calculated just by the revenue they [IBM] generate," said Chuck Jones in Forbes back in 2016. That is still true today, IBM has learned to use its patents and other IP rights in creative ways to encourage client relationships and, in recent years, to file suit, when necessary. It achieved an \$83 million Groupon win in 2018. But IBM can not live by patent litigation or portfolio sales alone. (It has sold groups of patents to ready-to-go public companies, including AirBnB, Facebook and Twitter.) Last year, IBM's income from intellectual property was its lowest since 1996. While it continues to secure licensing deals, they are fewer and harder-won, with more costly litigation necessary to achieve them. "IBM may be recognizing its glory days as the don of patents are waning," reports Bloomberg News. "The company is exploring alternate ways of capitalizing on its intellectual property," IBM President Jim Whitehurst said in a recent interview at the Montgomery Summit. Big Blue's acquisition of open source software business Red Hat in 2019 for \$34 billion may be less a harbinger of things to come than the need to recognize more diverse ways of generating ROI on patents and other IP rights. "The patent license model isn't the future of how you monetize innovation," said Whitehurst. Image source: IBM via Bloomberg.com March 12, 2021, 3:33 PM UTCInternational Business Machines Corp. has reigned for nearly three decades as the top recipient of patents in the U.S. But in the past five years, the annual income the technology giant generates from those rights has slipped and the overall number of patents it produced has plateaued.Unfavorable Supreme Court precedents and an emboldened tech industry are threatening what had been a reliable cash machine. Intellectual property rights historically brought in more than \$1 billion a year, on average, helping offset massive research and development costs and shrinking revenue. Last year, IBM's income from intellectual property was \$626 million, its lowest point since 1996, and 2019 wasn't much ... AI-powered legal analytics, workflow tools and premium legal & business news. Log in to keep reading or access research tools. © 2025 Bloomberg Industry Group, Inc. Unfavorable Supreme Court precedents and an emboldened tech industry are threatening what had been a reliable cash machine. Read More Time to start issuing the horseheads While Big Blue has been suing more companies over its inventions, its IP income has shrunk. According to Bloomberg, intellectual property rights historically brought IBM more than \$1 billion a year, on average, helping offset massive research and development costs and shrinking revenue. But last year, IBM's income from intellectual property was \$626 million, its lowest point since 1996, and 2019 was not much higher. While it continues to secure licence deals, they are fewer and harder won with people even going to court to avoid paying up. In February, online pet-food seller Chewy requested a court order to block a \$36 million patent fee IBM is demanding. Chewy accused IBM of "seeking exorbitant licensing fees for early internet patents having no value". IBM's claims against Chewy include years old inventions such as targeted advertising and content resizing based on cursor activity, both ubiquitous on the web. Chewy said IBM doesn't make or sell products covered by the vast majority of the thousands of patents it has received over the past 20 years, but instead just threatens to sue if companies don't agree to pay for licences. IBM has not answered Chewy's complaint, and no trial date has been set. While outfits that use their IP licensing aggressively to make money are often referred to as patent trolls, IBM's is more akin to being a patent godfather. Robin Feldman, a law professor at the University of California, Hastings said that with more than 38,000 active patents in its portfolio, and thousands of license agreements bolstering its legitimacy, IBM's demands have traditionally gone unchallenged. Such patent godfathers, with large portfolios, are "able to make offers that can't be refused". Even some of the most innovative technology giants have licensed IBM patents over the years. Google, Amazon and LinkedIn are among countless companies that have had to pay up or sleep with the fishes. Feldman, the law professor, told Bloomberg that "Being the godfather isn't what it used to be. It's not that patent aggregation as a business is over. You just make less money".

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