

DENVER BUSINESS JOURNAL

Friday, May 7, 2010 | Modified: Thursday, May 20, 2010 Page A14

Cellport is back, as cars become web-friendly

Denver Business Journal - by [Greg Avery](#)



Kathleen Lavine | Business Journal

Pat Kennedy, founder and CEO of Cellport Systems in Boulder, sits in his Internet-connected vehicle with technology his company helped pioneer.

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Pat Kennedy, **Cellport** Systems' founder and CEO, sees his company's future as brighter than ever now that Internet-connecting cars are arriving in dealer showrooms around the world.

The 12-person technology research company created and, more crucially, patented devices in 1995 for connecting automotive computer systems to the Internet over wireless networks. In 2002, Cellport anticipated the use of mobile web applications and invented systems it patented that were meant to make "apps" work with car computers.

High-speed Internet in homes was rare then. Few consumers expected some day to be able to surf the Internet in their cars.

But Cellport had been working on it for years, and bet the automotive world would come calling one day.

"We always knew we'd invented something that was way bigger than we could ever be," Kennedy said.

The company develops and patents auto communications systems meant to meet consumer demands that are years away. Cellport doesn't want to produce the technology, but rather license use of its patented systems to auto suppliers.

At least 2 million Internet-connecting cars will arrive in showrooms this year and automakers have begun selling after-market routers allowing Internet connections in older models. Drivers increasingly want to be able to check driving directions, screen phone calls and email from their car console, or connect their cars to their iPhones.

The demand is expected to make wireless Internet access a standard auto feature, creating a bigger market for licensing the systems Cellport patented several years ago.

The company's website lists past relationships with automakers as small as Mini Cooper and as large as General Motors. Nondisclosure agreements with auto suppliers prevent Kennedy from saying which cars carry Cellport's patented technology today, and the company itself often doesn't know, he said.

The 18-year-old company's interest in Internet-connected cars wasn't a blind gamble.

In the mid-1990s, Cellport created systems for built-in wireless phones for cars and won investment from the likes of mobile phone giants McCaw and AT&T, and from Cisco.

Cellport began supplying Ford in 2001. It grew to about 110 employees — its highest number ever — and looked like it would only get bigger. But things didn't go well.

It made \$10 million worth of built-in, hands-free cellular phone systems for Ford vehicles and invested more than \$1 million on design work. But in 2002, the automaker's new CEO, Bill Ford, canceled that technology initiative.

Cellport laid off 75 percent of its employees within months and later slimmed down to the dozen people it employs today. It kept on the company's founding technologists and just enough staff to sell the hardware inventory built for Ford.

It found a buyer willing to pay to have some of the Cellport hardware built into its fleet vehicles — Ford cars, ironically — but ended up disposing of the rest.

Cellport became a technology lab by necessity, Kennedy said.

"Dealing with the car companies as a supplier is way too dangerous, and the margins were ridiculous," he said. "It was a painful period for us, but we survived."

Cellport fought for compensation from Ford for two years through legal arbitration, but the effort failed and nearly destroyed the company's finances.

Cellport's surviving business — mainly technology licenses with Motorola and royalty payments from technology in GM's Onstar service — brought Cellport enough money to prevent having to sell off its patent portfolio to pay its debts on the Ford hardware orders.

It also had patented its technology for making proprietary auto computer systems talk seamlessly and securely with the wireless Internet.

In 2006, Motorola sold its division that licensed Cellport technology to a larger company, Continental AG, a German auto supply conglomerate. That new license arrangement paid Cellport tens of millions of dollars, wiping out its debt from the Ford work and funding new research.

Cellport positioned itself to be like Dolby Laboratories in the world of sound recording — it doesn't make technology but sells rights for manufacturers to use its innovations. That's working, Kennedy said.

Licenses and royalties from Cellport's existing patent portfolio generate more than \$10 million in annual revenue, he said.

The millions of Internet-connected cars rolling off assembly lines has increased interest in Cellport to the point annual license and royalty revenue will grow into tens of millions of dollars, Kennedy said. He declined to give exact figures.

Having been hurt by others copying its early hands-free phone systems a dozen years ago, Cellport regularly disassembles systems in new auto models to check whether the company's technology is being used without a license.

Companies usually work with Cellport up front, Kennedy said. That's because it promotes its clear patent history, and its team of researchers pursues licensing with auto suppliers instead of angling to make money from lawsuits, he said.

"Nobody's ever called me a patent troll," he said. "There's a difference between licensing for integrity and licensing for extortion."

Technologist Axel Fuchs, an inventor and auto industry consultant in Los Altos, Calif., helped build a prototype, Internet-connected Mercedes for Daimler-Benz in 1997 that received worldwide publicity. He worked with Cellport's technology to make cars' internal computers addressable by the wireless Internet, he said.

Fuchs knew then it would take at least 10 years for Internet connections in cars to become popular, he said. Automakers need technology to be affordable and consumer demand clear before they make it part of their cars, Fuchs said — and that time has arrived.

"This thing is now becoming reality," he said. "Much of it goes back to the basic ideas that Cellport pioneered."

These days, Cellport is creating systems that make the Internet-connected car capable of automatically paying tolls, gas station charges, drive-through restaurant tabs and other bills.

Kennedy doesn't expect it to generate money for the company in the near term.

"The world's got another five years to catch up to us again," Kennedy said.