IP Investor
Bruce Berman

Money grows on decision trees

In many industries patent litigation is a fact of business life. It therefore needs to be treated as such by both company managements and investors

The benefits of innovation are greater today than at any time in history. So are the costs. US patent applications doubled between 1990 and 2001; and have tripled since 1980. (EPO filings are up significantly, too.) Greater reliance on innovation rights to provide market exclusivity and generate income have also increased the investment risks associated R&D and enforcement.

While patent suits doubled in the US between 1991 and 2001, cases that go to trial remain steady at about 100 every year. As a result, a lower percentage of cases go to trial today (only about 3%). The increased focus on patent disputes in the business press conveys a somewhat distorted view of what typical IP dispute outcomes actually mean. Disputes over technology rights, especially patent litigation, can be more of an emotional response than they ought to be. The vast majority of patent settlements, in fact, are much smaller than those that garner headlines. For many companies, settling patent tussles is an inevitable cost of doing business, but one that managements and shareholders tend to see as a defeat. This may be due in part to the failure of management and financial analysts to understand the economics of patent disputes.

Results, not headlines

At US$4 million to US$10 million or more for fees and costs in important cases in key cities, the cost of patent litigation in time, money and opportunity loss cannot be taken lightly. Even the deposition phase can run into the millions. Some believe that inevitable and costly patent conflicts are best resolved by business people who possess a sound awareness of legal and technical issues. The support of legal counsel, as well as damages experts, is essential. But counsel cannot make business decisions in a vacuum. IP investors should remain focused on the best possible result for their company and its resources over time, not on business headlines. Selecting the right combination of strategy and expertise necessary to resolve a patent dispute is as much their business call as their advisers' legal one.

When lawyers start talking to other lawyers, the scale, cost and time of a conflict often is ratcheted up. There are many times when attorney-orchestrated litigation is unavoidable, and the top patent litigators are, more than ever, worth their weight in damages assessments. But, as IBM has demonstrated repeatedly, securing the most favourable outcome is not always about being the toughest negotiator or blowing away infringers in court. Turning adversaries into revenue sources can mean more to a company's bottom line than standing victorious over their carcasses.

Patent disputes as business risk

Samson Vermont is a young patent attorney at Hunton & Williams in Washington DC who has devoted himself to analysing the risk data associated with patent disputes. He argues that because of the enormity of what is at stake - including sales, market share, damages, possible future licensing royalties, as well as the litigation costs - strategies for resolving patent disputes must be evaluated like other significant business investments. The fact is that they are not. Vermont says there is abundant and revealing data on patent disputes that most companies and their counsel seldom consider. Some confirm what we already know. However, a lot of the statistics are counter-intuitive and need to be incorporated into risk analyses, such as a decision tree analysis. Some of what Vermont's research reveals:

- At least 35% of patents that go to trial are found invalid.
- In 1991, 1,178 patent suits were filed in the US.
- In 2001, 2,438 patent suits were filed; of those only about 3% will go to trial.
- From 1983 to 1999, 76% of patent suits settled. The rest were tried, adjudicated, dismissed or transferred before trial. About 7% of the suits went to trial.
- The number of patent trials has remained fairly steady at 100 every year over the past decade, indicating that a smaller percentage of patent suits are going to trial than in the past.
- US patentees win about 68% of jury trials and 51% of bench trials.
- When infringers are first to file declaratory actions, patentees win only 38% of the time.
- About 63% of US patents lapse because of non-payment of maintenance fees.
- Approximately 1.5% of US patents issued to US companies are litigated.
- 0.25% of US patents issued to non-US companies are litigated.
- US patent holders of US patents are about five to six times more likely to sue for patent infringement than their foreign counterparts.

Informed investors

What does patent dispute analysis mean to IP investors? It means that management and other fiduciaries must not abdicate their role in accessing business risk when it comes to patent litigation. They need to avail themselves of relevant data and interpret it together with their advisers. It also means that factors such as the industry in which their company operates, technology and business objectives should be part of a bigger picture when allocating IP-related resources, including those for litigation. Knowledge of the predominant risk factors that determine ROI makes sense in almost every area of investment. Why should intellectual property disputes differ?

In the Next IP Investor:
When winning a patent dispute can mean losing, and losing means winning. Also, median damages awards and the best and worst states to litigate patent disputes.

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