Written by
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Jungle logic

If value in the property market is all about location, in the patent market it is all about context

New York, Spring 2008 … The sub-prime mortgage crisis arrived in New York with a bang. Just across from my office is the new Bear Stearns building, where investment bankers mill about the entrance and smoke cigarettes, silently calculating their remaining net worth. The sub-prime meltdown has reaffirmed the cardinal rules of real estate transactions: "Location, location, location." It also serves to remind us of the three top priorities for patent assets: "Context, context, context."

A patent is 100% of something. Rarely is this as grandiose as it sounds. Mostly, the something that a patent covers is worth, er, well… nothing. It's like owning a 500 square mile tract in Siberia. Yes, you may hold the title to a large expanse of land, but unless a lot of oil is found there and it can be accessed, it is not worth the paper the title is written on; 500 square feet in central London, Manhattan or Tokyo, however, is another matter. A patent is not unlike a mining claim. It is all about knowing where and when to place the stakes. Stake it too broadly and it will be too difficult to defend; too narrowly and it may not cover anything worthwhile; too early and it may go unnoticed. A few miles, and sometimes a few yards, can make all of the difference in the world.

For a patent to have licensing value, it not only needs to be well configured and prosecuted, but one or more of its claims needs actually to read on an invention that generates significant revenue. Simply put, it needs to be valid and seriously infringed. For strategic patents, the standard of measurement is more abstract. Their significant value may be internal and untested in the courts or in the marketplace.

A well-rendered patent whose claims read on a product with weak sales is not very meaningful; neither is a poorly researched and configured one that reads on a successful product. What has meaning is a patent (better still, a family of patents) whose claims read directly on an invention which has been successfully commercialised and whose products have been selling well in the marketplace. However, establishing a strong fact pattern of infringement is no guarantee of reward because of the substantial cost, time and risk required to prove it.

Uneasy money

At a median cost of US$4.5 million (for cases with US$25 million or more at stake), and as high as US$62 million for an unusual and protracted case – such as the US$1.4 billion trial won in 2005 by Kirkland & Ellis for Karlin Medical Technologies – patent suits remain a viable way to deploy some infringed patent owners' time and money. The operative word is some. To prevail regularly in patent litigation you need to be selective, deep-pocketed, lucky and patient – no matter how strong the patent or how obvious the infringement.

Building a large and expansive patent portfolio is no assurance that any of its rights will read on the products they sell. In fact, frequently they do not. This leaves many operating companies vulnerable to patent suits and damages awards. Some NPEs (non-practising entities) and others attempt to exploit these weaknesses. Vulnerability to NPEs is compounded by USPTO, EPO and JPO pendency, where it can take five years or longer for some patents to issue; and when they do they are of dubious reliability. Patent examination costs and a lack of skilled examiners are among the forces at work here.

Smart choices

By the time an invention goes to market, the importance of a patent originally designated to protect it may have diminished significantly or even disappeared. As inventions evolve into commercialised products the patents originally filed to cover them may become irrelevant. The claims contained in a patent filed on the initial invention may differ from those necessary to protect the product actually sold. This can leave conscientious companies vulnerable and frustrated. Businesses need to keep their perspective regarding not only what IP coverages they have secured through R&D and internal patent filings, but also which ones they may need and do not have.

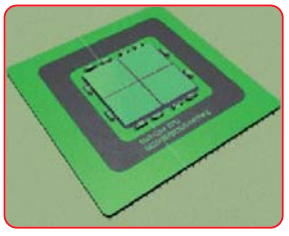
Where some see innovation as a jungle, others see it as an eco-system requiring interaction for survival of the species. It is becoming increasingly difficult for innovative companies to get by through burying their head in the sand, especially when they have weapons at their disposal, such as patent acquisitions, licensing and standards setting. Just ask Research In Motion. After paying out more than US$600 million in a settlement some say it could have secured for US$50 million, the Canadian firm has recently purchased a total of almost US$300 million in GPS and other patents. When it comes to IP rights, smart choices are sometimes painful ones. Senior managements seem determined to learn that lesson the hard way.

"Context, context, context"

Weak Patent A Reads on
Strong Patent B Reads on

Intel Pentium®D Processor
2005 Sales = $2 billion

Strong Patent C Reads on



Brand "Y" Processor
2005 Sales = $100k

Location means practically everything in real estate; with intangible assets like patents it is all about context

***Bruce Berman** is CEO of Brody Berman Associates in New York. His fourth book,* From Assets to Profits, *will be published in autumn 2008. The ideas represented here are his and not those of Brody Berman*