Deriving Value from Patents

Legal Challenges and Strategies for Handling Them

A United States patent grants the owner an extraordinary property right. In exchange for the patent's teaching of how to make and use a patentable invention, the patent grants the patent owner the exclusive right to seek to exclude others from exploiting the invention. Patent owners can use this exclusion right in a variety of ways. In addition to using a patent to exclude others from the market or as defensive armor to fend off patent attacks by others, the patent owner can sell the patent to another, use the patent to engage in business combinations such as mergers, acquisitions, and joint ventures, or license the patent to one or more others in a wide variety of ways.

Patent sales, related business combinations, and licensing can be remarkably lucrative indeed. Considering licensing as but one example, IGT generates hundreds of millions of dollars per year in patent licensing revenue. For decades, IBM – long considered the most prominent licensor in the world – has generated many billions of dollars annually licensing many of its patents.

However, using a patent to drive a patent sale, business combination or license involves a number of risks. Unlike real property boundaries, which are relatively easily described and precise, patented boundaries are difficult to describe with words and complex patent laws rule regarding their use. As a result, the scope of a patent can be subject to dispute as can the validity or enforceability of the patent. Since a court dispute over a patent not only involves unusually complex rules and procedures but also typically places at least a product or service line at risk, the costs of bringing a patent case to trial typically costs each party to the dispute in excess of one million dollars, excluding the cost of an appeal or other proceedings, such as patent reexamination in the Patent and Trademark Office.

This reality can help lead the parties to resolution such as a patent sale, license, or business combination. It also can present serious traps and problems for the patent owner in seeking to accomplish these ends.

Rightly or wrongly, patent law presents substantial and unique challenges when engaging in discussions about patents. Understanding these challenges can be critical in preserving patent rights and achieving the objectives sought by the patent owner.

Often, the patent owner is the one who identifies a potential infringer. The question can then become how to approach the potential infringer to drive a deal involving the patent. The answer is: carefully. Even then there is risk that the patent owner may wind up being dragged into court, and in an unfavorable location, by the infringer.

Under U.S. law, someone accused of wrongdoing often does not have to wait for the accuser to bring the matter to Court. The accused party often can bring a "declaratory judgment action" in the courts and force the accuser to litigate the matter to conclusion. So it is in patent cases. Under the U.S. Declaratory Judgment Act, a Federal Court may grant declaratory relief when there is "a case of actual controversy" regarding patent infringement.

Until recently, well established patent law had created a way for patent owners to discuss patent issues and potential patent business arrangements without subjecting the patent owner to declaratory judgment action by the potential business partner. The Supreme Court reversed this rule in 2007. At that time, the Supreme Court held that, even if the patent owner has actually granted a license under the patent to the potentially infringing party, the licensee can nevertheless bring a declaratory judgment action against the patent owner if circumstances indicate that a real controversy exists between the parties regarding patent infringement.

Clearly, discussing whether to enter into a business deal regarding a patent with a possible infringer involves substantial risk of being dragged into court by the possible infringer. Worse, this risk also includes the possibility that the declaratory judgment plaintiff can often bring the action in a forum of its choosing.

In litigation, generally the first to file a complaint in court enjoys the advantage of selecting the forum. This advantage can be particularly significant in the context of intellectual property litigation. Patent discussions with a potential infringer can therefore not only result in undesired litigation with the potential infringer but also in an unfavorable litigation forum of the potential infringer's choosing as the first to file.

There are strategies when seeking to discuss patent transactions while minimizing and possibly eliminating the risk of facing a declaratory judgment action. These strategies can include reaching an agreement between the parties that no party will bring a declaratory judgment action based on business discussions to come and filing an infringement action before negotiations commence.

In any event, when considering discussing a patent with a potential infringer, the patent owner should be aware of the risks and options for proceeding. A strategy should be determined accordingly.

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