

IP Enforcement Can Pay Unexpected Dividends In A Downturn

By **Barry Herman and Jeffrey Whittle**

During these difficult times, companies naturally focus on ways to enhance the value of their assets while reducing costs. So how does this impact the intellectual property portfolio management and litigation arena? Conventional wisdom tells us that as companies look to reduce costs, they have a tendency to be less likely to engage in potentially expensive litigation.

But this train of thought may not hold true in the area of patent litigation. In fact, a 2015 University of San Diego study[1] found that even as companies seek to reduce expenses during an economic downturn, IP departments also can tap into overlooked IP resources to generate value.

The report's authors write that while some in-house legal departments may look to reduce litigation volumes during economic downturns, "a decline in profits spurs firms to extract greater revenue from dormant assets by litigating more aggressively against perceived infringers." Diligently asserting patents against infringers can be a strategic way to drive value and improve a company's market position, particularly if a business may not be in position to invest in growth. This also holds true for situations where companies have yet to move forward with potential new product development and launches.



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"Because the relative internal rate of return on investing in patent litigation rises during downturns, it becomes a more attractive business strategy relative to other investment opportunities," authors Alan Marco (U.S. Patent and Trademark Office), Shawn Miller (Stanford Law School) and Ted Sichelman (University of San Diego School of Law) wrote.

Enforcing Patent Rights in an Economic Downturn

A 2009 [BTI Consulting Group](#) survey found that corporate legal departments planned to reduce spending on IP litigation during that period's economic downturn. In fact, the projected 7.7% decline in IP litigation spending was the largest in any single category.

However, that did not necessarily correlate to a decline in IP litigation activity. Instead, corporate legal departments merely intended to spend less per lawsuit. In-house legal departments are not looking to downsize — they are looking for the maximum return on their legal spend, working with firms that give them the biggest per-dollar impact.

This means that outside counsel with a real value proposition, that can work within the parameters of a client's financial reality, may have a competitive advantage over traditional (i.e. inflexible) law firms during an economic downturn.

"Patent litigation rates tend to increase in economic downturns characterized mostly by declines in investment and other measures of productivity, provided that credit remains freely available," the report's authors write.

IP Audits: Knowing Is (More Than) Half the Battle

The first step in capitalizing on a robust patent portfolio is knowing exactly what assets your company has. During this uncertain period caused by the coronavirus pandemic, companies should consider conducting a thorough internal audit to identify and evaluate the patent assets in their portfolio.

For example, Nortel Networks Corp. filed for bankruptcy in 2011, following the aforementioned economic downturn, unaware of the vast value of the company's lucrative patent portfolio. This knowledge gap caused a significant failure on the part of the company's board and proved to be a sizable loss for Nortel's shareholders — but a tremendous win for its creditors. A portfolio of 6,000-plus Nortel patents sold for a whopping \$4.5 billion.[2] On the flip side, Microsoft Corp. has reaped billions of dollars[3] from its successful management and enforcement of its patents related to software used on the Android platform.

Savvy in-house counsel understand that successfully managing patent and other IP assets can boost their professional reputations, as well as their employers' economic well-being. Companies that best leverage their intellectual properties can make the case to board members and shareholders that their confidence is merited.

Acquiring patent portfolios from struggling companies can provide tremendous value, not only as a potential revenue generator, but as a signal to competitors that they should be wary of launching a patent attack. Competitors will think twice before suing if the likely result comes with the risk of a counterattack that puts its own products in harm's way.

One strategy that a company struggling during an economic downturn can employ entails seeking to license existing but underutilized patents to others. The licensee receives the benefit of these patent rights, while the licensing company earns income from commercializing products protected by the patents.

This is a particularly attractive option when the licensee is not a direct competitor or if the licensees operate in different markets than the licensor. In addition, IP assets can be sold to others or used as collateral to help secure loans or other funding.

But in order to leverage underutilized patents, a legal department first must know what it has in hand — and that requires an IP audit. An IP audit serves two essential functions: (1) it identifies any underutilized intellectual property within a company's portfolio; and (2) it reveals any potential risks and gaps within that portfolio, giving the owner an opportunity to address those issues before litigation is necessary. A thorough IP audit also should identify the IP assets with specificity, the lifespan of the IP assets, and their potential value to the company.

The Value of a Value Proposition

The bottom line is that even in tough times, boards of directors and company executives should take the time to manage and defend their IP portfolios. The following are a few considerations to keep in mind:

Risk avoidance is the best defense. The most cost-effective strategy in protecting IP assets is to make sure those assets are secured before infringement claims arise. This is where a comprehensive IP audit can be so important. Such an audit should prioritize identifying potentially untapped or underutilized assets that can be monetized and should help

understand the relative strength of such an asset.

Evaluate your IP litigation capabilities, and fill in gaps with outside counsel where needed. While companies understandably want to avoid litigation during an economic downturn, safeguarding valuable IP is worth the long-term investment and can help maintain or garner more market share. A good starting point is an external evaluation identifying possible infringers.

By working in partnership with outside counsel, companies can find much-needed stability, revenue and market share by aggressively protecting patents and other IP during the current economic downturn. What's more, by having those IP assets in hand, companies that act now will be better positioned to capitalize and grow when the economy inevitably rebounds.

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[1] Alan Marco, Shawn Miller & Ted Sichelman, Do Economic Downturns Dampen Patent Litigation? (University of San Diego Law Faculty Works, 2015).

[2] "Nortel Patents Sold for \$4.5bn," The Guardian (July 1, 2011).

[3] Ewan Spence, "Microsoft Takes Six Billion Dollars from Android", Forbes (November 1, 2015).