Executive COUNSEL
THE MAGAZINE FOR THE GENERAL COUNSEL, CEO & CFO

What to Patent is a Strategic Question

By John G. Rauch

Intellectual Property

Major patent transactions are in the news, and the financial and strategic importance of a well-managed patent portfolio has the attention of many C-suite executives. In 2011, for example, Google Inc. offered $12.5 billion for a portfolio of 17,000 patents and 7,000 pending patent applications from Motorola Mobility.

It was a clear indication of Google's intent to expand and defend strategic growth in the smartphone market. Google had previously bid on bankrupt Nortel Networks' patent portfolio, which was sold at auction to a consortium that included Apple, EMC, Ericsson, Microsoft, Research In Motion and Sony, for $4.5 billion.

Even smaller portfolios can yield significant value. Tegal Corporation, for instance, sold a portfolio of patents related to nanolayer deposition technology for $4 million.

As these and other transactions suggest, developing or acquiring a patent portfolio can be a source of significant competitive and financial advantage for an innovative company, especially in the life sciences, chemicals or information technology sectors.

But companies don't need thousands of patents to achieve strategic advantage. Given the time and resources required to pursue and maintain a patent – and the cost of litigation to enforce patent rights – many would be better served with a right-sized patent portfolio that supports specific business goals.

Now, some companies are beginning to ask their corporate counsel and technology managers whether their patent portfolios are being actively managed.

Typical questions include: Why do we own these patents? What other inventions should we patent? What patents should we license or sell? How much will this cost? The answers are all part of developing a patent portfolio strategy.

DEFENSE

As most general counsel are aware, a U.S. patent can be a powerful defense of a new invention, giving its owner the right to exclude others in the United States from making, using or selling the covered product or technology. Patent rights may be enforced in the federal courts or, if a domestic patent is infringed by imported products, before the U.S. International Trade Commission.

Clearly, patents help companies defend a key technology, component, or feature of a product that gives them a competitive advantage and sets them apart in the market. For a small company or one focused on particular technology, a patent on a core feature is the most important component of a patent portfolio.

A related defensive strategy is acquiring patents of other companies that are related to your key technology or core feature. Research and competitive analysis may disclose other companys' patents that complement that technology or its market, in a situation where your patent has left openings for design-arounds that could be implemented with the complementary patents. But if you own the patent on the design-around as well as on the core product, you have stronger rights to keep others out of the market – in effect, by way of a picket fence around your core feature.

OFFENSE

Less well appreciated in the C-suite is that patents also can be used as an offensive weapon. Offensive actions include asserting a patent against an infringer in a lawsuit or licensing the patent to another company with an interest in the technology. Licensing is especially useful for patents on technology that is no longer of interest to your company but is still valued by others, because it can create revenue stream in the form of royalties.

Patents also can be transferred for cash or other compensation when the purchaser values ownership more than the seller does. Identifying a licensee or purchaser requires effort, but these transactions can add value from assets that were not generating value before.

Another offensive strategy, now more frequently employed in the technology and research sectors, is to patent an element of a competitor's technology before the final product is actually invented. In some industries, marketers and technologists keep close watch on competitors and their products to see what next-generation competitor products will look like. A patent application filed on an innovation that a competitor will require in the near future can block that competitor or force it to spend time and money on a design-around.

> Deciding what to patent requires focusing on business goals and gauging available resources.

DEVELOPING THE PORTFOLIO

These considerations lead to the next set of questions for the corporate counsel, about how best to develop a patent portfolio that allows for both defensive and offensive strategies:

- Can we patent our company's technologies?
- What should we patent, and when?
- How should we prioritize our patenting?

Business managers, marketers and technologists all should be involved in answering these questions.

Patentability of your technology requires that it be new, useful and not an obvious innovation by the standards of patent law. Novelty generally requires that an invention has not been publicly disclosed, although current U.S. law provides for a one-year grace period after publicizing an invention.

Meeting the requirement for usefulness is usually easy, although some business method and biotechnology inventions recently have received close scrutiny by U.S. Patent and Trademark Office (USPTO) examiners. Your patent attorney can help craft the application

to best cover permitted subject matter.

Deciding what to patent requires focusing on business goals and gauging available resources. Core features if possible should be protected, especially those that required the most research and development and solved particularly difficult problems. Companies should consider patenting manufacturing techniques, software, or online tools developed in executing a business strategy, any and all of which can create a business advantage.

A strong published patent application teaches competitors how to solve the problems your invention addresses, but it keeps them from duplicating your invention. A patent attorney can help prepare your patent application in a way that provides sufficient detail for the patent examiners, at the same time that it anticipates future challenges to your claims.

Ideally, your patent application will be filed before any event publicizes the invention. Companies working with others outside the company, such as suppliers or customers, should maintain confidentiality through non-disclosure agreements. At some point, however, a product or service must be publicized and that will require action to protect the invention. Events such as new product launches and trade shows are occasions to contact a patent attorney to review what can and should be patented.

Patenting early in the development process, once you have identified a solution to the problem, but possibly before solving implementation details, leads to a simpler application than one for later development stages. You are not obligated to update the written description later. However, if important inventions continue to occur during development, those innovations can be captured in subsequent applications that build on the first to further protect your investment.

Planning is critical. A company must allow sufficient time to develop the invention and to draft and revise the patent application. Ninety days is typical. After filing, there can be a long wait for USPTO examination results. The USPTO's goal is to issue an examination report within 14 months, but the delay is typically two years and can be as many as four. The usual examination report is a rejection of the invention, but the routine is to amend the application and request reconsideration. The majority of patent applications are eventually allowed, although the current average pendency is about 34 months.

The delay that occurs while a patent is pending can be frustrating when the proposed patent is essential to your business. Obtaining financing or being able to block a competitor, for example, can hinge on having the issued patent in hand, since no rights exist before the patent is issued.

Fortunately, the USPTO recently has begun a new program of prioritized patent application examination, colloquially called Track I, or Fast Track. For an additional fee (now $4,800), USPTO promises to process the application within 12 months. The first patent through the Track I process was issued to Google on January 10, 2012, just over three months from the date the application was filed in the USPTO.

In many companies, heightened awareness of the value of a well-designed patent portfolio has renewed interest in patenting. At the same time, increasing budget pressures have required many companies to reduce their patenting expenditures, so it has become increasingly important to be strategic and cost-effective in designing and developing a portfolio.

A business doesn't need thousands of patents to build significant portfolio value, but the inventions of most value to the company and others can produce substantial value. ■

Upcoming events such as new product launches and trade shows are occasions to contact a patent attorney to review what can and should be patented.

John G. Rauch is a shareholder at Brinks Hofer Gilson & Lione. A former patent attorney at Motorola, he specializes in patent prosecution and counseling, licensing, and preparing opinions, with extensive experience in computer technology, business methods, online commerce, networked search systems and business-to-business systems, telecommunications and electronics.
jrauch@brinkshofer.com

BRINKS HOFER GILSON & LIONE®