Intellectual property (IP) rights are a core asset of a company, and management of a patent portfolio is a significant business strategy. A mature company may use a patent portfolio to protect the freedom to operate in an industry or in a certain technology, to enforce market share, to protect against or to settle patent litigation, or to generate licensing revenue, among other uses.

Companies can create and maintain strong patent portfolios in at least two ways. First, companies may grow a patent portfolio by either buying or licensing an existing portfolio. Second, companies may develop a patent portfolio by, for example, filing patent applications and obtaining patents on technologies. This paper explores the relative benefits or drawbacks between these two options for mature businesses. This paper further presents some best strategies for developing a patent portfolio should a company choose that route. This paper offers practical considerations and strategies to use in advising intellectual property clients, and in drafting and claiming inventions.

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I. Buying a Portfolio

With enough money, a company could grow a patent portfolio overnight. Nevertheless, there are a few things to keep in mind before deciding to purchase a patent portfolio.

Analysis of some recent cases

Nortel

Nortel Networks sold 6,000 patent assets for $4.5 billion in cash in July of 2011.3 One of the purchasers, Google, may have bought the patents as a defensive move to shield itself from lawsuits as it moved into the mobile market with its Android software.4 The other parties to this sale, Apple, Microsoft, and Research in Motion Ltd., also likely bought into the portfolio to protect themselves and to be able to barter more effectively,5 “If a company has currency to exchange, it can sometimes settle litigation and cross-license technology,” said Cono Carrano, a partner of Akin Gump Strauss Hauer & Feld LLP. “But if a company doesn’t have a meaningful portfolio and gets sued, it doesn’t have much to do but defend itself, and that’s not an advantageous position to be in.”6

Kodak

Kodak’s portfolio recently sold for $525 million dollars to a 12-member consortium including Apple, Google, Facebook, and Samsung Electronics.7 The Kodak sale may signal a cooling in the patent purchasing bubble, as the per patent value was much less than per patent

4 Id.
6 Id.
value in the Nortel sale. There are other distinct differences in the two sales. The Nortel portfolio was directed toward an emerging market where several new players needed to build a war chest of patents in order to compete effectively. Some of the players in the Nortel sale had cut back on internally grown patent applications, and had a hole in their portfolio to fill. The Kodak patents did not enjoy a similar environment.

The encumbrances and maturity of the Kodak portfolio may have affected its value. A portfolio’s value depends heavily on the extent to which it is encumbered. That is, the greater percentage of the industry that is licensed to a portfolio, the less valuable the portfolio is. Further, the maturity of a portfolio also affects value in that the patents very near the end of their life are of lower value than comparable patents with more patent term remaining. With respect to the Kodak portfolio, it should be noted that it was more encumbered than some other portfolios and was fairly mature.

The Kodak patents also went for the minimum amount that Kodak said it would accept. In contrast, the Nortel sale involved a frenzied bidding process where the price was bid up $2 billion in a two-hour window, with participants raising their hands for one hundred million dollar increments. The Nortel sale was also witness to the largest and fastest joint venture formation in history, with the multiple parties that won, bidding against each other until they finally joined forces at the last minute to come up with the winning bid.
Recommendations

It may be preferable to purchase a portfolio as a defensive move when moving into a new market. In such a situation, the purchasing company may not have had time to build a portfolio in the area or was unable to do so for some reason.\(^8\)

Some commentators recommend patenting inventions in a core technology, while at the same time obtaining licenses on patents that will be used in the product in areas outside the core competencies.\(^9\) Patent analytics tools may also be used to find partners who may wish to license a core technology or for finding partners with technology that may be advantageously licensed.

It is important to understand that there are still good patents available for licensing, because companies are motivated to monetize their patents and therefore are open to licensing their patents. This comes down to the fundamental issue of utilization of corporate assets. IBM has long had a licensing strategy that involved up to three patents being used to determine the maximum royalty rate for a license. IBM also has more patents than anyone in the world. This combination (of only small numbers of patents from a large patent portfolio being monetized)

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\(^8\) Companies may continue to purchase large blocks of patents to strengthen their position in different markets, even when that company already has a presence in that market. For example, according to Mike Pellegrino, president of Indianapolis-based Pellegrino and Associates, InterDigital has been in the process of transferring a 1700-patent portfolio to Intel. According to Pellegrino, Intel intends to strengthen its position in the wireless technology market. According to Pellegrino, the bulk of the patents belong to USPTO classifications 370 (multiplex communications), 375 (pulse or digital communications) and 455 (telecommunications) with key technologies directed to efficient and cutting-edge wireless communications technologies: spread spectrum, channel assignments, hand-off control, multiplexing and near-field communications. As Janal Kalis of Schwegman, Lundberg, & Woessner, P.A., points out, it is “worth remembering that, along with its partner Google, Intel was left disappointed after being outbid by the Rockstar consortium for the Nortel patents back in June 2011. So, the company has been actively looking to bolster its position for quite a while. There is no reason to believe that this will not continue.”

resulted in a lot of patents (corporate assets) being underutilized, because of three “better”\textsuperscript{10} patents.

However, IBM’s licensing strategy should not be considered usual or even optimal. On the contrary, underutilization of corporate assets can result in loss of value to shareholders, and may result in pressure on management to properly utilize assets. This, and general pressures by corporate boards to monetize patents, has resulted in good patents being available to purchase, subject to existing license agreements. While this may complicate valuation of the patents, the fact still remains that there are still some good deals out there. Other companies may come to the same realization regarding their portfolios, which may lead to still further good patents being available for purchase.

\textsuperscript{10} “Better” is a misnomer here. The “better” patents may have been easier to apply and present in convincing parties to take a license, and may not have had the broadest enforceable claims.
II. Developing a portfolio

It is critical for companies built on technology to protect their innovations and developments to maximize return on their investments as well as to position themselves in preparation of potential competitor actions. A patent portfolio enables a company to: i) prevent others from practicing their inventions; ii) gain licensing fees for use of their inventions; iii) deter lawsuits by others, in particular, competitors. Further, a well-structured portfolio may be monetized at various points as the needs of the business change.

All of these benefits come with a cost; developing a patent portfolio introduces initial fees and overhead costs as well as on-going maintenance costs. Employees are always willing to be named as inventors on patents, especially when employees stand to gain patent bonuses for their participation in the patenting process. Law firms are also willing to charge companies $10,000 or more apiece for as many patent applications as a company would like to file. However, these and other costs must be kept in line. Allocation of these costs requires an understanding of the company’s business, technology and goals in order to identify and select inventions to patent.

Further, in order to build a winning patent portfolio, a company should consider the broader industry in which the company operates, to include partners, customers, suppliers, and competitors. A company’s marketing department may help to focus patent-drafting efforts toward upward-trending technologies expected to show high growth and good profit expectations. Other patent filings should be limited to developments of particular significance that are highly differentiating.
The following sections provide some practical guidance for assuring that patents in the portfolio are of high quality and that the patent portfolio is part of a well-thought-out corporate business strategy.

**Obtaining and screening disclosures for filing**

Deciding what to patent can be a very difficult proposition. Some patent counsel would recommend planning a patent strategy early in the stages of product development without, however, etching this strategy in stone. As part of this strategy, it may be advantageous to pursue a mixture of broad patents and narrow patents. For example, broad patents could cover a product or product line concept and narrower patents could cover key features of a product. It is important to keep in mind the overall goal of creating numerous barriers to competitors.

Developing both broad and narrow protection will create these numerous barriers in that, even if competitors can design around the overall concept of your product, it may be more difficult to design around the most important features of your product.

According to Curtis Rose, a company’s patent portfolio should reflect the company’s strategic goals and ensure freedom to operate in a sector. Patent attorneys should be involved in the process early on, working closely with inventors and engineers to identify opportunities and to ensure that the patent portfolio tracks strategic goals. Not only does a corporate IP department need to track current strategic goals, but the IP department also needs to track goals into the future.

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12 *Id.*
13 *Id.*
14 *Id.*
16 *Id.*
A “patent scrubbing” process may be used, in which the patent attorneys or others review products and projects at certain milestones. As part of the patent scrubbing process, patent attorneys may ask the engineers about the significant technical problems that were overcome during development. Different key players may also determine which features customers are most likely to notice and appreciate, or which features would most differentiate from competing products.

A patenting strategy could also include conducting invention workshops to focus on possible innovations outside immediate project plans. This tool would mostly likely require business executives with vision to look five to ten years into the future. Engineers or other technologists may be brought in as necessary to conceive of inventions fitting this vision. In-house patent counsel may facilitate the invention workshop process and help identify patentable inventions.

According to some commentators, IP managers may be failing to track strategic goals by placing inordinate focus on the value of a breakthrough patent.\textsuperscript{17} Instead, according to these commentators, IP managers should focus on the technology portfolio that provides support for a given product.\textsuperscript{18} As an illustrative example, Apple spent a lot of time and money on a few individual patents that attempt to encompass all of the iPhones most prominent and defining features.\textsuperscript{19} Some of these patents were recently held invalid,\textsuperscript{20} but this does not mean this strategy was incorrect.\textsuperscript{21}

\textsuperscript{17} Lindsey Gilroy and Tammy D’Amato: How many patents does it take to build an iPhone? Intellectual Property Today, November 2009.
\textsuperscript{18} Id.
\textsuperscript{19} Id.
\textsuperscript{20} Id.
In any case, there is value in pursuing a variety of strategies, or having a back-up plan, as patent law is a dynamic area, with constant changes in statute, regulation and judicial interpretation.

**Working with Inventors**

In order to implement a corporate intellectual property strategy, counsel should ensure that inventors, or potential inventors, are aware of the impact that the patent process has on a company’s business. Companies may consider providing basic patent law training to inventors or certain key inventors or engineers. Training may include helping engineers identify when they are conceiving of an invention.

There is a variety of ways to identify inventions, including mining based on project timelines, incentivizing disclosures, and holding brainstorm sessions to solve current and relevant problems. Once ideas are identified, these are then evaluated against criteria determined by the business. The evaluation helps the company determine which disclosures should be pursued as patent filings. The evaluating group may include patent practitioners, business owners, and/or technologists, each bringing their expertise and perspective to the decision-making process. These ideas may be expanded or combined with other ideas. Often companies have a rating system to identify those ideas which are most closely aligned to the business goals, or as they satisfy the various evaluation criteria.

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20 All 21 claims of Apple patent 7,844,915 (“the pinch to zoom” patent) were invalidated on reexamination by the USPTO on December 19, 2012. Patent 7,469,381 (the “rubber-band” patent) was invalidated on October 23, 2012 on reexamination by the USPTO. It may be important to maintain establish a proprietary market position by protecting your core product or service advantage, by patenting propriety technologies and business methods that give an edge over competitors. 21 Rivette and Kline, “Rembrandts in the Attic,” p. 198, Copyright 2000. This might include prominent and defining features as was the case with Apple’s patenting strategy.


23 *Id.*
Most companies offer significant incentives to the inventors when an idea is filed as a patent application. This encourages the engineers/developers/scientists to engage in the process to gain education as to the subject matter to submit for evaluation. In some business areas obtaining this engagement is hindered by attitudes about the value of patents; this is significant in the software and Internet related inventions, where many developers engage with Open Source software and believe all software should be provided without obligation. In such a situation, it may be helpful to have a CTO or technical/business executive encourage participation in the patent program.

Some would debate whether the IP process should be centralized or decentralized in larger organizations. According to Rose, patent attorneys at HP typically work near HP R&D centers. This allows attorneys to develop better working relationships with the engineers, building trust and perhaps leading to informal discussions between the IP team and engineers and uncovering further disclosures. These informal discussions can further easily be formalized into brainstorming sessions, allowing the attorneys or other management to look at new products their engineering teams are working on, and brainstorming how the products can be distinguished from products already on the market.

**Timing issues in generating your own portfolio**

The USPTO’s new Track I Prioritized Examination program allows an applicant to reach final disposition (allowance, final rejection, abandonment) within 12 months of filing. To qualify for this program, an applicant must file a simple, one-page petition and a $4800 petition

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24 Processing Power: An interview with Curtis Rose, Vice President and Assistant General Counsel a Hewlett-Packard Development Company (HP) – Legal Strategy Review, January/February 2012, p. 34-37.

25 http://www.uspto.gov/web/offices/com/strat21/action/p2p01.htm
fee ($2400 for small entities). According to the USPTO’s Track I website, the current pendency to final disposition is just over 5 months.

Recent statistics show that the allowance rate is higher for Track I applications, and the costs are generally lower, justifying the entry fee. The Track I process has allowed at least one applicant to build a substantial portfolio in under a year. Some critics point out that costs may still be elevated if the Examiner issues a final office action, necessitating a costly RCE or an appeal. However, some commentators respond to this criticism with the opinion that most Examiners would not issue a final office action for Track I cases. Further, even if the Examiners did issue a final office action, this resolution would be reached more quickly. Still further, recent changes allow the use of Track I for the first RCE, even if filed off a Track I application.

By taking advantage of Track I filing, the speed with which a company can grow a portfolio could be on par with the speed with which a portfolio may be purchased. For example, in order to purchase a portfolio, a company must first identify a need, and then identify potential existing patents that meet that need. Next, the company must determine whether or not the potential existing patents can even be purchased, perform due diligence on the portfolio, develop a strategy for approaching the patent owner or owners, and identify acceptable budgets for the purchase. Finally, assuming the process is not aborted at any of these steps, the company must get involved in a potentially laborious negotiating process. Further, several cycles of this

26 Id.
27 http://www.uspto.gov/patents/init_events/Track_One.jsp
28 Gene Quinn, Track One By the Numbers. What are you Waiting for? IP watchdog, posted March 22, 2012.
29 http://www.uspto.gov/patents/init_events/Track_One.jsp
30 According to Jim Singer, “[b]etween September 23, 2011 and January 3, 2012 the USPTO received nearly 1,700 track 1 petitions. Of those, nearly 700 have already received a first Office Action, and 37 have been allowed. The average time between the filing date and first Office Action for a Track I filing is 66.4 days. According to Patently-O, the first patent granted on a Track I petition was issued to U.S. Patent No. 8,094,942, issued to Google, Inc. based on an application filed September 30, 2011.” IP Spotlight, January 17, 2012, http://ipspotlight.com/2012/01/17/is-track-i-prioritized-examination-speeding-up-the-patent-application-process/ (last visited January 8, 2013).
process can occur prior to successful conclusion of a deal, if any. On the other hand, an entire portfolio could be built relatively quickly using Track 1 filings.

In some technology areas, quick patenting would not necessarily be desirable or possible. However, certain issues should be considered when deciding whether to take advantage of Track I. For example, if a company owns a patent with a very broad specification but somewhat narrow claims, and the company notices or finds a potential infringer whose product reads on the specification but not the claims, a continuation patent could be obtained relatively quickly with claims directed to the infringing device and with support back to the broad parent specification.\(^{31}\) The continuation patent, having priority to the parent, could be used in an infringement suit against this infringer within months under the Track I system instead of within years under non-Track I.

As a further consideration, some commentators believe Track I will reduce prosecution history estoppel, which should protect some issued patents in reexaminations and attempts to prove invalidity in litigation.\(^{32}\) One of the benefits of Track I is that the prosecution of the patent application is condensed over a period of a few months rather than dragged out over a period of multiple years.\(^{33}\) With each response, then, the case is fresher in the mind of the attorney and the Examiner and less explanation or background information should be required in each response. Further, there will likely be fewer overall responses, for reasons already explained above. The less admitted on the record, the less prosecution history estoppel and in theory the greater the protection from reexamination and invalidation.

\(^{31}\) Gene Quinn, Track One By the Numbers. What are you Waiting for? IP watchdog, posted March 22, 2012.  
\(^{32}\) Id.  
\(^{33}\) Id.
Other prosecution strategies

As a patent application may take a significant amount of time to prosecute to allowance, some cases may have changing relevancy as they are pending. Once a case is filed, therefore, patent attorneys should continue to monitor how the cases fit into an ever-evolving corporate patenting strategy. At each Office action, cases should be evaluated to determine, for example, whether to abandon the case. Some pending cases should be abandoned to free up money for other, more-strategic cases.

Cases may first be filed as PCT cases to defer, while maintaining the possibility for, United States filings. The case may only be entered into the national stage if the claims have a viable scope in light of the PCT search report.

Further, in light of the new “first to file rule,” in those industries that move quickly and are competing neck-to-neck with their competitors, there will be a need to file more applications, and obtain the early filing date. This then begs the question whether to file these as provisional applications, non-provisional applications, or PCT applications; each having advantages and cost considerations.

In-house or outside counsel?

The extent and scope of tasks assigned to outside counsel firms varies, with some companies having fully supported patent application preparation and prosecution done in-house, while others outsource this work. There are a range of options in between, as well as the level of engagement in review of the applications and responses. These decisions are made based on a few factors, including: i) in-house staffing, software and capabilities; ii) the number of outside
counsel firms handling the company’s patent work and the relationship with each firm, ii) the complexity of the technology; and iii) the size of the portfolio.

In some situations, corporate legal departments have more in-house personnel and limit outside counsel to only those who are best equipped to handle their technology areas.\(^{34}\) In-house counsel may be more familiar with the technology, inventors, and business strategy of a company than would be the case with outside counsel.

Some IP departments also use outside counsel to prosecute larger numbers of patent matters when the volume is too large to be dealt with by the in-house attorneys.\(^{35}\) When preparing application in-house, it is advisable to have a back-up firm that handles some cases so that if a need should arise the outside firm can handle the overflow work. In general, firms able to provide high-quality rush services may be well positioned to serve clients.

With the “first inventor to file” rule going into effect in March, 2013, in-house counsel may not necessarily find the level of activity altered, but there may be more projects that need to be filed right away to avoid losing patent rights.\(^ {36}\) In at least these situations, it may be necessary to offload some of the patent application drafting responsibilities to outside counsel.

With regard to the selection of outside counsel, it is important to select outside counsel that specializes, or has a number of patent attorneys that specialize, in that company’s specific technology area or areas.

Optimally, outside counsel should have capabilities in the areas of post-grant and reexam proceedings. Companies need to keep in mind that the necessity of conducting these

\(^{34}\) Editor’s interview with Joseph A. Capraro Jr., The Metropolitan Corporate Counsel, September 2012, p. 26.

\(^{35}\) \textit{Id.}

\(^{36}\) \textit{Id.}
proceedings may arise unexpectedly, and the costs are significant.\textsuperscript{37} Even as post-grant and reexamination proceedings become more and more litigation-like, the costs of post-grant and reexamination proceedings nevertheless will remain less than the costs of litigation. Accordingly, companies may expect to be party to increasing numbers of post-grant and reexamination proceedings as their rivals turn more and more to post-grant and reexamination proceedings where they might have previously turned to litigation.\textsuperscript{38} Because companies often prefer to minimize the number of outside firms used, it may be advantageous to choose outside counsel that can handle both transactional matters and patent post-grant and reexamination proceedings. Further, as already mentioned, post-grant and reexamination proceedings may arise unexpectedly and it could be advantageous if the firm that is to handle these proceedings already has a relationship with the company. For at least these reasons, therefore, it may be important that outside counsel is selected based on outside counsel’s ability to handle both transactional matters and post-grant and reexamination proceedings.

\textbf{The importance of writing a high-quality patent application}

According to some commentators, only 2\% of the patents in a given patent portfolio may be “money makers.”\textsuperscript{39} Nevertheless, it does not follow that a company should file patent after patent, regardless of quality, in the hopes that something sticks. According to Rose, it is important that companies do not center on the need for the USPTO (or other patent offices) to improve their examination procedures to weed out low-quality applications. “Yes, they should only be issuing valid patents that fulfill the constitutional goals, but you have to look at what’s

\textsuperscript{37} Id.
\textsuperscript{38} Id.
\textsuperscript{39} \url{http://www.ideaapp.com/why.html} (last visited January 7, 2013).
being inputted into that process too. If the input is thousands of low-quality applications that don’t merit the award of a patent, it becomes difficult for the Patent Office to do its job.\textsuperscript{40}

Therefore, according to Rose: “That’s our goal at HP: to submit only strategic and high-quality applications that we truly believe to be valid.”\textsuperscript{41} According to Rose, HP is one of the few companies that routinely conduct patentability searches before filing patent applications.\textsuperscript{42} Rose believes this thoroughness and focus on quality gives HP a strategic advantage. “From a financial perspective, the worst-case scenario [if we don’t run these kinds of searches] is that the application will go all the way through the system, and even to grant, before we discover that the patent isn’t truly valid,” he explains.\textsuperscript{43} “It’s much better to find out early on in the process, before you’ve spent so much money. Even if we find that 5% of identified innovations are rejected during this process, it more than pays for the cost of the patentability search. We’re selective about the number of patents that we file, so we don’t want to waste applications in inventions that aren’t patentable.”\textsuperscript{44}

Higher quality patents should be less likely to be held invalid or overturned on reexam or other post-grant proceedings. If the holder of the invalid patent does not try to enforce the patent on anybody, this issue may never arise. Nevertheless, some companies may wish to consider performing their own patentability searches on essential or core patents, preferably before drafting the patent application and certainly before filing.

\textsuperscript{40} Processing Power: An interview with Curtis Rose, Vice President and Assistant General Counsel a Hewlett-Packard Development Company (HP) – Legal Strategy Review, January/February 2012, p. 34-37.
\textsuperscript{41} Id.
\textsuperscript{42} Id.
\textsuperscript{43} Id.
\textsuperscript{44} Id.
Further, prior art searching may save money by avoiding patent filings that are so near the prior art that the commercial value of any issued patent would be negated. Money may also be saved because originally-filed claims can be distinguished over art found during the prior art search. A better specification may be drafted as the patent drafter can focus on the actual distinguishing feature of the case once the patent drafter knows the nearest existing prior art.

**Special Issues in the standard-setting context**

For companies involved in standards-setting organizations (SSOs), it is important to file patent applications as soon as possible upon discovering that the company may have a patentable invention essential to the standard. In drafting these (or any) standards-based patent applications, care should be taken to not draft the specification too narrowly. The specification should be drafted to cover the direction that it is believed the standards committee may take. Therefore, the specification should incorporate ideas, outside of the actual claims, that may later make their way into the final standard. Companies should then monitor the standards committees’ progress, and consider filing continuations adding claims directed to the apparent or actual direction of the standards committee.

A patent portfolio also requires maintenance, at a minimum to prosecute the applications through to allowance. In some industries there is continual management of a family of applications, where continuations are filed to capture the direction of the business. This is particularly true for businesses that participate in standard setting organizations. In these cases, an accounting is made of patents and applications that are contributed to or otherwise part of the standard so that proper disclosures may be made to the organization. Additionally, as these standards mature and develop, features change and new features are added to specifications. Each of these may impact the claims of applications filed to protect contributions to the standard.
By following these changes and amending the pending applications accordingly, the value of the investment in the patent portfolio is maintained.

Antitrust issues should also be taken into account while participating in an SSO. Most importantly, corporate IP departments should carefully balance the point at which patents and patent applications that read on a standard are disclosed to SSOs. The Federal Trade Commission (FTC) has brought several antitrust claims against SSO participants, some based on the issue of non-disclosure. While the FTC’s holdings have not been upheld by the courts, it may be prudent to keep this issue in mind when participating in an SSO.45

III. Conclusion

While buying a portfolio may allow a company to build a portfolio very quickly, it will be very difficult to find many portfolios for sale. Further, it may be very difficult to determine, *ex ante*, which patents are worth most in a portfolio, or to negotiate and decide on reasonable prices for a patent portfolio. Companies should consider licensing to “fill in the gaps” and to avoid spending too much development time on areas outside the core competency.

Should a company decide to build a patent portfolio, it is important that the portfolio be built based on a flexible strategy. Relationships should be developed and maintained with key outside counsel that has competencies in the relevant technologies. Patent quality can be improved through better inventor interviews, and perhaps by conducting patentability searches prior to drafting or at least prior to filing.