TANGIBLE IP®
PATENT BROKERAGE & STRATEGIC ADVISORY

What Makes a Patent Valuable

It's no surprise that court decisions (coupled with changing USPTO guidelines) have negatively impacted the value of US patents. This is not to say that all patents are worthless, far from it. And, if one were to use our deal flow and recently received offers as the benchmark, the patent marketplace would appear to be vibrant and, perhaps, poised for a rebound.

So, what's changed? In short, there has been a shift to quality over quantity and only "near perfect" assets now sell. Although valuations per patent are generally down from 2-3 years ago, they remain relatively stable relative to historical levels when it comes to "high quality" patents.

Which begs the obvious question: What makes a patent valuable? And its natural corollary: How can I make my current patents and patent applications more valuable?

This is a matter of opinion obviously and there's more than one school of thought to be considered. Plus, what holds true today may rapidly change based on new case law or regulation. However, we believe the secondary market still provides the best reflection of valuations. All buyers will turn to their subject matter experts to both review the merits of the portfolio along with appropriate valuation to justify their investment every time they acquire a new portfolio. After brokering over 5,000 patents in the last decade warranting communication with hundreds of buyers, we have a pretty good idea as to what the market wants and values!

When patents are offered for sale or for a license, there are two main reasons why a buyer will consider: 1) the assets on offer will provide defensive rights to one company should another company sue them (i.e. assertion value on competitors) or 2) the assets are practiced by companies within the industry with recoupable damages (i.e. Non Practicing Entitles – NPEs buy to assert) Regardless of how you slice the apple, patents are nothing more than assertion rights reflected in a government issued title, which can be passed to others via a sale or partitioned out via a license.

And remember that what follows also holds true when it comes to enforcing one own's patents. Having that in mind, here are a few well-honed approaches that help drive their value:

Draft with Assertion, Not Protection in Mind. A patent is primarily a negative right (*i.e.*, the right to exclude others from practicing your invention). Therefore, if all a patent does is 'teach" your invention (*i.e.*, identify a market need and describes your particular solution) to the public and mostly overlaps with the product you sell or will sell, you just wasted a lot of money that could have been better invested elsewhere. Every patent should be drafted (especially the claims) with the anticipation that competitors will want to replicate, improve upon or design around your solution, either now or 15 years from now; your patent is thus intended to make their efforts more difficult, more expensive and/or less effective. This is how you support innovation that maintains your initial competitive advantage. If you only protect against basic cloning, it will be very easy for others to avoid infringement by adding or removing a single non-essential element. This is where an internal exercise of "designing around" your own patent is useful to anticipate what a competitor might do and broaden the protection accordingly. This exercise costs virtually nothing and sadly very few inventors actually do this in a deliberate manner. It is much better for you to "stress test" the strength of your own patent before compelling a competitor to do so. Consider how the claim terms are supported in the specification

and might be interpreted by an administrative judge at the PTAB or in the district courts years down the road.

Build a Family. Although foreign patents are becoming increasingly more valuable, US assets still account in most cases for at least 75% of a portfolio value because this is where the largest damage awards are available. And the US system is unique as one can file continuations (and Continuations in Part - or CIPs) that take advantage of 20/20 hindsight in many cases while still allowing the inventor to benefit from the earlier filing date of the initial application. The important thing is to have a very detailed Specification (the part of your patent that describes the invention). The specification serves as a canvas for future claim sets that can continue to evolve as a result of new case law, or can better map on competitors' product as they come to market. This is a unique advantage that many applicants fail to seize upon as they seem content to receive their initial patent and neglect to file a continuation which keeps the family alive. This is also a pet peeve for most buyers and many will pass on a portfolio that can no longer evolve.

In practice, this means that once a patent has been allowed, a diligent review of the application: specification and drawings should be conducted, in view of the prosecution history, to determine if it is worth pursuing a continuation application. While some entities with greater financial resources may have a policy to keep at least one family member alive, smaller companies generally may need to be more judicious with the monetary expenditures. In addition to keeping prosecution open, it is generally advantageous to have continued prosecution available in an assertion (or licensing) context.

Draft Targeted Claims. Many, if not most, patent prosecutors are taught to draft broad claims. In some cases, this is combined with vague claims, often using language that is not explicitly supported in the specification. Broad and vague is still broad and vague, and while such patents may indeed have some value, they are unlikely to be an assertion or licensing driver, particularly in today's market. The most valuable claims are often those that are carefully targeted to clearly map to a particular product or process, and often include relatively narrow claim elements by intent. The downside of broad claims is that they are the easiest to invalidate, and they are especially easy targets for invalidity challenges based on prior art such as *Inter Partes* reviews in the US. A targeted, narrower claim will be more difficult to invalidate. In particular, such narrowing elements should be a point of patentability distinction, rather than merely claiming some well-known feature that could be easily invalidated through a combination obviousness rejection.

Submit a Lot of Prior Art. Currently, close to 80% of US patents that are challenged with the USPTO end up being held invalid because of some prior art that wasn't in front of the examiners when they reviewed the application. Therefore, an issued patent where the applicant submitted significant prior art to distinguish its invention is much more likely to sustain challenges downstream and therefore will be perceived by most buyers as being more robust, and therefore more valuable. At the same time, don't submit volumes of prior art references based on techniques such as keyword searches – every reference that is submitted should be relevant. When reviewing prior art, you are not limited to other patents; on the contrary, look for existing and past commercial products and explain how your invention is better. (On a related note, many patent firms still discourage their clients from conducting a prior art search on the rationale that the examiner is paid to do this and there is no point incurring those costs internally. Well, consider that obtaining a patent in the US generally costs over $20,000 (including all government fees) and maintaining it through its entire life can add tens of thousands of dollars. Add to this that defending a challenge through an *Inter Partes* review now costs anywhere from $250K-$500K… Do you really want to invest that much money on such a speculative title when you could probably de-risk this operation significantly by investing $1-2K in a good patentability assessment prior to filing? Do the math!

Avoid "Paper" Patents. A majority of patents in circulation will never be productized commercially. Many studies show that only 10% of patents are actually practiced by their owners. Although evidence of commercial sales always

helps when valuing patents, this by itself is not fatal, as the inventor has no obligation to bring the invention to market under patent laws worldwide. What is not so good, though, is when the patent remains a general idea and there is no attempt to prototype and refine the invention. Judges and juries don't like to reward people who simply came up with an idea, filed a patent application and moved on to the next project. They, and therefore the market too, place a lot more value on inventions that were refined further and where the original inventors had a real reduction to practice. Also, prototyping almost always leads to additional inventions and patents, which makes for a larger and more valuable portfolio due to a higher and stronger cost or performance barrier to others who choose to work around your patents.

Confirm Easy Detectability. There are probably hundreds of thousands of patents that are being infringed every day, yet these patents are worthless. Why is that? In short, if you cannot demonstrate that someone is practicing all elements of an issued claim, you have no case to assert your patent. This is the situation with a good part of patents describing manufacturing processes, cloud-related inventions, etc. where the infringing acts happen "under the hood" and there is no way to legally access the missing information. Furthermore, recent case law has raised the threshold for what needs to be proven in the initial pleading and the days where you'd file a general allegation of infringement and find what you needed through subsequent discovery are gone. In most cases, the Plaintiff won't make it past summary judgment. Worse yet, there is a far greater potential for sanctions and fee-shifting in cases where the Plaintiff had insufficient evidence of infringement at the pleadings stage. Therefore, most patents for which demonstrating infringement is impossible, difficult and/or really expensive (e.g., in the semiconductor space) have little commercial value. So always ask yourself how you can write claims that make evidence of use clear while a product is sitting in a box or through visual inspection of the product or by covering functionality likely to be described in sales or user literature.

In parallel, many patents are unenforceable because the acts required to prove infringement are done by more than one party. This is often referred as "divided infringement." In situations that require more than one party to practice some elements on a given claim, the option to assert direct infringement is usually not available, and this makes the patent a lot less valuable as you then have to resort to alternative "indirect" infringement theories including contributory infringement and inducement.

Conclusion

Securing strong patents generally doesn't cost more than obtaining bad ones. The key to building a valuable patent portfolio that can later be monetized relies in the approach taken from the first day a first provisional application is drafted, through steps taken during prosecution and many tactical decisions made well after the patent issues. Only through a consistent and deliberate approach such as the one described above will you create intangible assets that will maintain their value overtime and be there for you when you need them.