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Optimising returns from patent portfolios through a strategic architecture based on fundamental principles

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Developments in US patent law over the last 10 years have increased the difficulty of patent enforcement. Accordingly, voluntary patent licensing has decreased in many market segments and 'efficient infringement' has increased. These changes have had a chilling effect on innovators and investors seeking to generate financial returns from patent portfolios.

Change, however, creates opportunities for sophisticated investors. Annual patent application filings have not decreased, so patent assets continue to accumulate and create opportunities for strategic investments. The key is to understand the fundamental principles underlying the changes in US patent law. These same principles can be applied – in the US and worldwide – to make smart investments that can generate returns from patent portfolios. The top-end of the patent licensing and enforcement market continues to produce significant economic benefits for patent owners who carefully craft strategic architectures to create value from the legal changes that have occurred.

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In this article, we will describe the fundamental principles underlying the changes that have occurred in US patent law and how to use those same principles to unlock value from underutilised patent portfolios.

Basic principles

First, a basic primer on patent value. A patent bestows the right to do one thing only: profit from exploitation of the patented invention. For example, injunctive relief enables the patentee to prevent a competitor from using the invention to the patentee's market disadvantage. 'Lost profits' damages allow the patentee to recover the profits it lost due to a competitor's use of the invention for competitive advantage. 'Reasonable royalty' damages provide the patentee with the amount of money the patentee would have received if an infringer (competitor or not) had agreed to a voluntary licence to use the invention.

These remedies do not exist without the potential for litigation. What incentive does a company have to voluntarily pay for a licence to practice another's patent rights? There is no incentive unless the patentee is willing to pursue the remedies available through litigation. Then, the incentive correlates to the risk that the patentee will achieve exclusionary or damages relief and the legal spend that the company will have to incur to defend itself in litigation.

Asserting patents in litigation costs money and other resources. Most operating companies do not enjoy lawsuits, which burden their employees and detract from day-to-day work. As it gets harder for patentees to win the right to a remedy through litigation, the investment necessary to generate revenue from patents increases. At the same time, the incentive for infringers to pay for a licence to the patent rights decreases. Increased difficulty and cost thus have a chilling effect on patentees' willingness to invest in generating revenue from their patents.

Four primary developments in US patent law have increased patentees' difficulty of success in patent litigation: (i) the US Supreme Court narrowed the availability of injunctive relief in *eBay v. MercExchange* (2006); (ii) the US legislature created administrative post-grant proceedings, including inter partes review (IPR), to review the validity of patents already issued by the US Patent and Trade mark Office (2011); (iii) the US Supreme Court narrowed the scope of patent eligibility in *Mayo v. Prometheus* (2012) and *Alice Corp. v. CLS Bank* (2014); and (iv) the US courts increased the evidence and rigour required to establish damages for patent infringement.

These changes have increased the difficulty of obtaining a remedy through infringement litigation. Accordingly, they have decreased the voluntary payment of royalties for patent rights. Patent owners often must litigate to create value from their patents. But which patents should they choose to enforce through litigation in order to maximise return on their investment in legal costs? The answer requires an understanding of the fundamental underpinnings of the changes listed above.

What difference does it make?

A close examination of the changes to US patent laws reveals a single, fundamental question at the heart of each: what difference does the invention make? This question, often unspoken, drives all of patent litigation and value, because ultimately human beings – judges or jurors – must make the decision that it is fair for the patent owner to be awarded a remedy for another's infringement. Fairness demands that

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the patent owner demonstrate that the invention makes a difference in the real world, and therefore the infringer must pay.

Patent owners and investors can improve returns on any investment in patents or enforcement by creating an architecture for the programme using 'what difference does it make?' as the keystone.

Inventions make a variety of technical differences compared to technologies that came before or already exist in the market. Critical to patent enforcement is considering how those technical differences translate to economic benefits – what difference the invention makes to the patent owner's and infringer's revenue and costs. The technical benefits enabled by some inventions command premium prices in the market. Other inventions reduce manufacturing costs. Both models contribute to profitability.

Being able to articulate what difference the invention makes through a credible story increases the patent owner's likelihood of success against each defence raised in litigation. For example, an invention's technical benefits compared to the prior art influences the patent eligibility analysis under the *Alice* case – if a patent improves the functioning of a computer or other machine, then it is less likely to be an unpatentable 'abstract idea'. In *inter partes* review (IPR) proceedings, the patent trial and appeal board must determine whether the patented invention is novel and non-obvious compared to prior art – the patent owner can improve its chances of prevailing by telling a story of how the invention makes a beneficial difference over the prior art.

Remedies for infringement also depend on what difference the invention makes. The amount of damages owed often scales with the magnitude of the market-facing benefits of the invention compared to prior art or other alternatives the infringer could have used instead. Injunctive relief may be granted if the invention creates such an advantage that infringement causes irreparable harm to the patentee's business.

Thus, no matter what the issue in patent litigation, the question 'what difference does it make?' plays a critical role. Patent owners and investors in patent enforcement can benefit from this insight by looking for opportunities to invest in patents that tell a persuasive story of benefits compared to the prior art. The patents that tell the most compelling story can be prioritised in a licensing or enforcement effort to increase the likelihood of success from the first licensing discussion through trial.

How can a patent owner identify which of its patents answer the question 'what difference does it make?' The patent owner first must have a basic understanding of prior art and alternative technologies in the market. Then, the patent owner can consult the text of the patents themselves to fill out the story.

The early sections of the patent specification – often labelled the 'background' and 'summary' of the invention – frequently tell the story of the invention's improvement over the prior art. These sections can be the most important evidence in a patent case, considered often by the court. If they tell a persuasive story, the story is more likely to be believed than if the story is developed only through lawyers.

Beyond the specification, the history of prosecution before the US Patent and Trademark Office may contribute further to the story. When confronted with prior art, how did the patentee explain the benefits of the invention? This public record can also help build a persuasive story around the patent.

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Finally, the benefits of the invention described in the specification and file history must be captured by the elements of the claims. In order to use the story of the invention in licensing and litigation, the patent must include claims that recite the elements critical to the value benefit over the prior art and alternative technologies.

The story cannot be told by the patent and file history alone, however. Patent owners should look for inventors and other witnesses who can tell the critical parts of the story of the invention: what came before it, what problem did it solve and what benefits has it produced in the market? Patents that can be supported by testifying witnesses who can tell the story have a greater chance of success.

The entire licensing and enforcement programme can utilise an architecture in which 'what difference does it make?' is the focal point at every phase. This common thread running through patent litigation affects the patent owner's likelihood of success at every stage. And just as increased difficulty in patent litigation decreases voluntary royalty payments in licensing transactions, increased likelihood of success also increases the likelihood of obtaining voluntary licences.

By asking the seemingly simple question 'what difference does it make?', patent owners and investors can unlock value from patent portfolios that otherwise might go untapped in the current legal landscape. Armed with an understanding of this fundamental principle, patent owners need not fear changes in the law. They can use this principle to navigate any legal landscape and produce returns on investment in patents and enforcement. ■

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