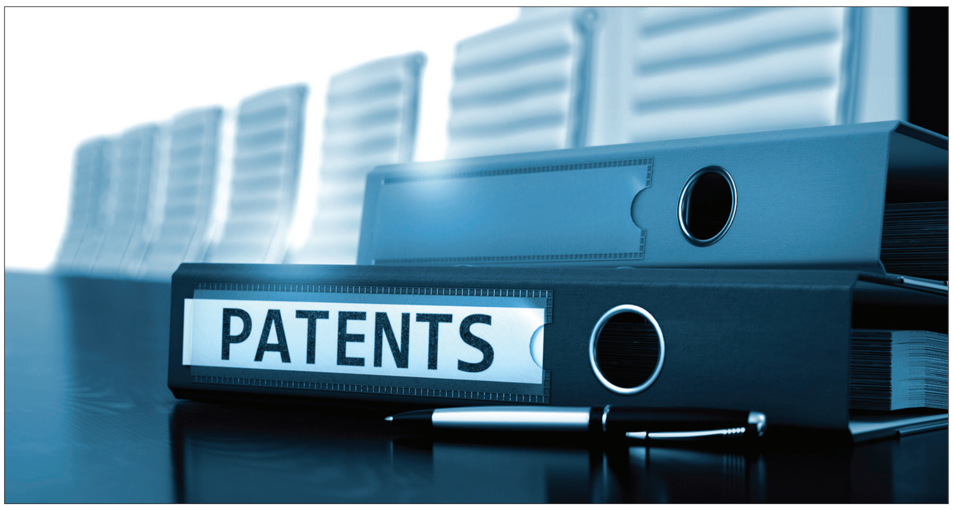
Burying Fossils: Pruning Patent Portfolios to Decrease Annual Costs & Promote Growth

By Peter Nieves

Most CFOs, CEOs, and in-house GCs would confirm that one major area of concern in controlling corporate expense is cost associated with maintaining an intellectual property (IP) portfolio. A significant portion of IP portfolio cost tends to be associated with patent portfolios. Most understand the value associated with having a strong patent portfolio; however, if not properly maintained, a strong patent portfolio can have characteristics similar to a decorative vine in a flower bed. The decorative vine looks wonderful at first, but if not properly pruned and maintained, it creeps into the area of other plants and flowers, slowly taking up real estate. If left alone, it slowly strangles life out of the others. Similarly, if not expertly maintained and pruned, cost associated with maintaining a patent portfolio will get out of control, resulting in fewer financial resources available for necessities such as marketing, research, and even salaries.



Be Aware of Continuing Fees for Unwanted Assets

Properly used, a heathy patent portfolio can be a powerful intangible corporate asset. A patent allows the owner to stop others, within a geographical region, from making, using, selling, offering for sale, or importing the technology or method covered by claims of the patent. Patents can be used to: build a barrier around technology of a corporation, in an effort to deter competition; obtain cross-licensing opportunities, allowing for joint efforts within a technological field; build an arsenal for offensively asserting rights against third parties so as to capture a large portion of the market; and to build a stream of income through licensing; or for one or more of many other reasons.

As a side note, it is important to remember that a patent allows the owner to stop others, and does not allow the owner to make, use, sell, offer for sale, or import the claimed technology. Too often, we hear of corporations shocked that they were sued for patent infringement because they were under the impression that they had patents covering their technology. As a simple example, if one has a patent on a chair having four legs, a base, and a back, while they can stop others from making, using, selling, offering for sale, or importing the chair, they can still be sued for infringement of a patent on a stool having three legs and a seat if they make, use, sell, offer for sale, or import the chair because the chair has at least three legs and a seat.

Returning to the subject matter of patent portfolio cost: unknown to many, depending on the size of the patent portfolio, a substantial portion of costs associated with a patent portfolio may be maintenance fees and annuities. Maintenance fees and annuities are required to keep a patent application or issued patent alive. In the United States, patent maintenance fees are due at 3 ½, 7 ½, and 11 ½ years after issuance of a patent. Putting this into perspective, for a corporation having more than 500 employees, also referred to by the USPTO as a large entity, the 3 ½ year maintenance fee due to the USPTO is $1,600, the 7 ½ year maintenance fee is $3,600, and the 11 ½ year maintenance fee is $7,400 (almost the cost of a new patent application). For a small entity, maintenance fees are 50 percent less. The USPTO does provide a micro entity status rate as well, however most with a healthy patent portfolio would not qualify.

Countries outside of the U.S. use an annuity fee structure. Annuities are due each year that a patent application is pending in a particular country, and cost continues after issuance of the patent application, until expiration, which is 20 years after the earliest priority date. Annuities steadily increase over life of the patent. It is worth noting that a single patent in the U.S. may have three or four affiliated foreign patent applications or patents.

Putting this into perspective, if in a single year a large entity corporation maintains 10 11-year-old patents, 10 seven-year-old patents, and 10 three-year-old patents, the corporation would pay $126,000 in fees to the USPTO for the year. If half of these U.S. patents have three affiliated foreign patent applications or patents, this would add 45 annuities (15 patents multiplied by three). Adding the 45 annuities for patents and patent applications in foreign

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is another option unique to cybersquatting — the resolution process offered by the Internet Corporation of Assigned Names and Numbers (ICANN), the entity that effectuates the Uniform Domain Name Dispute Resolution Policy. Using ICANN, a domain name holder can relatively inexpensively bring a complaint and have a decision rendered regarding the alleged infringing conduct by a neutral third-party provider. The entire process is intended to be completed in 60 to 90 days, significantly faster than a lawsuit. ICANN has the authority to cancel and/or transfer the offending domain name as part of the resolution. However, it does not offer a monetary remedy.

If a company carefully selects a protectable trademark, registers the mark, and polices it against potential infringers, it will be protecting an important set of assets and, ultimately, increasing the value attributed to its brand and product offerings. If protected from the outset, the company can avoid the expensive and time-intensive process of rebranding. Furthermore, it will prevent competitors from taking advantage of a weak trademark portfolio and reaping the benefits of the goodwill that it has established.

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countries, costs could easily result in over $150,000 for a single year just in maintaining patents and patent applications, not to mention annuity service company costs, foreign agent, and/or U.S. agent costs for handling the same. A small entity corporation would instead incur $75,000.

This simple example demonstrates how costly a patent portfolio can be, even when new patent applications are not filed. In fact, I wouldn't be surprised if a number of readers immediately contact responsible parties and ask for a summary of all patents, filing dates, issue dates, expiration dates, and annuity fee due dates and amounts, as well as maintenance fee due dates and amounts. Viewing a patent portfolio through this lens allows for better understanding of true patent portfolio cost.

At this point, it should be clear why it is vital to regularly prune patent portfolios. Note that with this example, not a single new patent application has been filed, patent clearance search performed to ensure non-infringement of new technologies, or patentability search performed to ensure that a new technology is patentable.

Guidelines & Points of Interest

The following contains a few guidelines and points of interest that should assist in maintaining a healthy and cost-effective patent portfolio:

- If the patent portfolio contains international assets, it is helpful to have legal counsel who is familiar with obtaining and maintaining IP rights internationally.
- Quarterly or semiannually, it is beneficial to obtain a listing of all patent applications and patents within the patent portfolio, where the listing at least includes filing dates, issue dates, expiration dates, annuity fee due dates and amounts, as well as maintenance fee due dates and amounts.
- Set and maintain quarterly or semiannual meetings with department heads and a member of management to discuss assets within the patent portfolio and whether they are to be maintained. Rationale for maintaining must be provided and should include concrete reasons, such as, for example, the patent preventing competition from practicing the technology, the associated technological field still being of interest to the corporation and why, or specific potential licensing opportunities.
- Inventors on patents tend to be very emotional when it comes to abandonment, which can make it difficult to obtain abandonment approval. In addition, corporations may have incentive programs providing a small bonus for patents being maintained. This is why such incentive programs are best if they reward upon patent issuance, and not maintenance.
- If a patent is filed in the U.S. and multiple foreign countries, and the patent is abandoned in one country, it is beneficial to determine if rights in all countries remain necessary. While abandoning a patent family member may not be necessary immediately if an annuity or maintenance fee is not due for some time, reaching a decision regarding maintenance of the entire family at once will minimize disruption of corporate functions later when an annuity of maintenance fee of a family member is due.
- Busy department heads and members of management may not want to take the time to review each patent to confirm feasibility of patent maintenance, resulting in their simply replying to maintain all patents. Someone has to be the enforcer in this area, and the highest probability of proper accountability will require enforcement by a respected member of management such as, for example, a Vice President, CEO, or CFO.

Of course, there is much more that may be considered, however, this short article should flag the concern and hopefully allow corporations to find areas of needless corporate expense. Burying fossils in a patent portfolio frees up resources for future IP procurement as well as for other important investments.

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