

Building a Patent Portfolio that Supports Your Business Objectives

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Introduction

The value of a single patent is often overestimated. Very few patents produce commercial “home runs.” More often, a patent protects an incremental improvement over the prior art, and serves as a single building block in a larger patent portfolio. For commercial success, the patent portfolio usually complements substantial investments in sales, marketing, manufacturing and licensing programs. Nevertheless, it is clear that a well-developed patent portfolio can deliver competitive advantage.

Patents can create barriers to entry, and help a company carve out areas of exclusivity in the marketplace. An effective patent portfolio can make a company more attractive to investors. For example, some investors monitor the size a patent portfolio as a measure of innovation, making patent protection a high priority for many companies seeking investment. In addition, a strong patent portfolio can enable a company to catch up to competitors, leverage new business relationships or maintain existing ones. For these reasons, patent protection remains a vital component in driving business value.

Patent procurement can be an expensive process, however, often generating six-figure legal fees to obtain worldwide patent protection for a given invention.¹ To obtain value-added patent coverage that justifies the considerable cost of patent procurement, your company should exercise foresight and reasoned judgment. It is not enough simply to have a patent. The patent should add tangible value to your business, and be positioned to deliver revenue in an identifiable manner. This paper outlines a number of strategic points that can help you form a link between patent protection and business objectives while reducing the overall cost of patent procurement.

Business Objectives

It is essential that a company link its patent filing strategy with its business objectives, which can be quite varied. The first question, particularly for a new business, is “How do

¹ Legal fees associated with preparation of a typical U.S. patent application, for example, are usually in the neighborhood of \$8,000 to \$15,000. Government filing fees and the additional legal services necessary in navigating the patent prosecution process can cost another \$10,000. Maintenance fees to keep a patent in force are on the order of \$6,000. In the event an applicant elects to file applications in other countries, the overall cost of a single patent family, including foreign attorney fees and translation costs, can approach \$100,000. There really is no worldwide vehicle for patent protection, but extensive protection can be obtained by filing in national and regional patent offices.

you expect to make money?” In other words, what is your business plan and how will it implicate or benefit from patent protection?

Do you offer a product or a service? Or will you sit on the sidelines and seek license revenue? If a service is contemplated, how will it be delivered? What sort of revenue stream is envisioned? Will revenue be subscription-based, transaction-based, or serve to pull through sales of other products? Do you intend to license the technology to third parties? What is the competitive climate in your industry? What are the patent positions of your competitors? Is the product difficult to produce notwithstanding patent protection?

There are also many practical considerations. Where will the potential infringement take place, and who will be the infringer? Where do your competitors have manufacturing facilities? Which geographic markets have the highest potential? Are there applications of the technology in other industry segments? How long will the technology remain relevant? Can the technology be protected as a trade secret? Will patent protection offer competitors easy design-arounds?

The answers to these questions will influence the types of patent applications and claims submitted by your company, and subject matter sought within each application. In each case, you should fashion patent coverage to account for the commercial reality of its business. In some cases, the answers will determine whether you elect to pursue patent protection altogether.

Competitive Advantage

The basic reason for filing a patent application is usually to obtain commercial advantage. A patent gives its owner the right to exclude others from making, using, selling, offering for sale, and importing the claimed invention.² Notably, the emphasis is on excluding others, rather than an exclusive right. Indeed, a patent gives its owner no right to practice the claimed invention. Instead, the patent right can only be used to shut down competitors who attempt to practice the claimed invention. Consequently, if one of those competitors has a patent that dominates your patent rights,³ you may be precluded from practicing your own patented technology.

Assuming there are no dominant patent rights, the competitive advantages afforded by a patent centers on the scope of the claims. The claims are essentially a laundry list of features, one or more of which distinguish the claimed invention from the prior art in a patentable way. Specifically, the claims must define subject matter that is new, useful and nonobvious relative to pertinent prior art. The patent examiner uses the claims as a

² 35 U.S.C. § 271.

³ A patent providing broad coverage “dominates” a later patent providing narrower coverage. If patent A covers a broad genus, and patent B covers a species within that genus, patent A is the dominant patent. This may occur when patent B is directed to an improvement of the invention claimed in patent A.

checklist for the patentability determination. The courts use the claims as a roadmap for infringement analysis.

The clearest case of competitive advantage is the patent that carves out a zone of exclusivity sufficient to exclude competitors from producing not only the claimed invention, but also any reasonable alternatives to the claimed invention, such that the patent owner could be said to enjoy a limited monopoly. Within the scope of the patent grant, the patent owner is free to set prices, adjust quantities, and even geographically divide its markets as it sees fit. A patent ordinarily does not convey a true monopoly, however, or even market power in the antitrust sense. Nevertheless, short of a monopoly, a patent with sufficiently broad claims can provide substantial competitive advantage.

As an example, Company A patents a process for polishing semiconductor wafers. The process includes steps X, Y, and Z and uses material M in step Y. Although material M is the preferred material, Company A's patent attorneys extract from the inventors a number of useful alternatives to material M, including M', N, and O. From this exercise, Company A's patent attorneys not only exclude Company A's competitors from practicing the basic process steps X, Y, and Z using material M, but also foreclose the use of reasonable alternatives such as materials M', N, and O by the competitors. Company A thereby enjoys de facto exclusivity for any wafer polishing process using steps X, Y, and Z.

The more common scenario is a collection of patents directed to different aspects of the company's technology. This portfolio of patent rights locks down discrete features and prevents access by competitors. In this manner, the patent owner is able to leverage the exclusivity attaching to a collection of features, either alone or in combination, to differentiate its products or services from those of competitors. Thus, the patent owner's portfolio may permit a competitor to operate in the general market for a patented product, but without specific features that add value to the patent owner's product and serve to distinguish it among customers.

As an illustration, Company B patents a laser printing system that includes a number of subsystems: an exposure station, a developer station, and a fuser station. Even if Company B is unsuccessful in patenting the overall printing process or system in a broad sense, it has also filed individual patent applications directed to each subsystem. The subsystem claims may involve features directed to increased image quality, reduced maintenance or reduced cost.

Although competitors may practice the overall printing process, they must avoid the individual subsystem features or risk infringement. Consequently, both Company B and its competitors may coexist in the market, yet customers may ask the competitors why they do not incorporate the Company B features in their systems. In some instances, Company B wins sales from its competitors due to the availability of its "exclusive" subsystem features.

Of course, to fully realize the promised commercial advantage, it may be necessary for a patent holder to file an infringement suit against the competitors to seek “active enforcement” of its rights. Frequently, the competitors may consciously avoid the patented system, process, or features for fear of an infringement suit, providing the company with a measure of “passive enforcement.” Nevertheless, you should be aware that the cost of securing competitive advantage may include not only the patent procurement costs, but also patent litigation costs, which can often run \$2-4 million. If a company never actively enforces its patent rights, it could become known as a patent “push-over,” watering down the passive enforcement value of its portfolio. Accordingly, the company should be prepared to actively enforce its rights at some point, and quantify the cost of active enforcement in its business decision to file patent applications.

The award of patent infringement damages often will pay for and supplement the cost of enforcement, and can even change the competitive atmosphere within a particular market. The patent laws provide for the award of either a patent owner’s lost profits due to infringement or a reasonable royalty when lost profits cannot be readily substantiated.⁴ Some recent jury awards for patent infringement damages have been in the \$300 million range. Many companies, however, may view an injunction that shuts down a competitor as the most valuable result of an enforcement action.

Licensing Revenue

Some companies may choose to co-exist with competitors within an industry or sit on the sidelines altogether without offering a product or service covered by its patent rights. In either case, a company may pursue licensing royalties as its basic business objective or a supplemental revenue stream.

For some industries, it may not be practical to move forward without granting licenses. In particular, widespread industry adoption of a technology may depend on open access or the availability of multiple suppliers. Some industries, such as the semiconductor sector, have seen substantial growth only after widespread cross-licensing of patents among multiple players.

Some technologies have applications that extend well beyond the industry or competitive environment in which the company is presently operating. As a result, a company may have the opportunity to grant licenses to parties in disparate fields without impacting its present competitive position.

A number of examples illustrate the different licensing positions taken by various companies:

⁴ 35 U.S.C. 284.

Open Standards

Some industries have established a devotion to “open” platforms and protocols as a basic tenet of business practice, and require cross-licensing to join the club. Although some companies avoid patenting altogether in view of the notion of open platforms, others realize that securing patents is not entirely inconsistent with an interest in developing open standards.

While patent enforcement can derail development of open standards in some circumstances, the procurement of a patent per se does not. In this sort of industry, licensing as a revenue driver may not be directly apparent. Whether a company believes in open platforms or not, however, it is nice to have a patent or two in its pocket to save for a rainy day.

The decision to enforce the patents is an entirely different matter, and so long as the open platform develops as planned, the company may elect never to enforce them. Instead, the company freely licenses them to other adopters of the standard, often on a royalty-free basis. At the same time, the patent owners ordinarily carry some weight in the organization and can exert subtle influence to control evolution of the standard.

Also, if one or two key players break away from the pertinent “club” and undermine the open development plans, the availability of patents at the company’s disposal could save the day. In addition, patents may be useful in leveraging cross-licenses necessary to gain access to patents held by companies that do not follow the open platform model. Therefore, support of open platform initiatives and procurement of patents need not be mutually exclusive.

Second Source

In industries requiring huge investments in infrastructure or standardization, it may be necessary to grant a license to one, two, or more additional players to promote adoption of a technology platform as the industry standard. In this sort of industry, the patent owner may elect to grant a royalty-bearing license to other industry players, and reap the rewards of increased market size and an early leadership position in the sales of products based on the patented technology. The patent owner also may retain rights over future development of the basic, enabling technology, and only grant licenses for applications of the technology.

There is a delicate balance, however, that can make or break a business. If the royalty rate is too high, and if other suitable alternatives exist, the patent owner may face an uncomfortable waiting game. The patent owner must somehow persuade the other players to opt in at the present price, or slash it to entice them. The royalty rate may have a huge bearing on the overall return of the patent owner’s business, making this decision extremely dicey.

Strict Licensing Play

Other companies view the procurement of patents as the basic manufacture of saleable goods. In other words, licensing is the primary reason for being in business. For these companies, the patent portfolio may have less focus because there is no basic business or product offering upon which the licensing business is built. Instead, a company seeking a strict licensing play may start with a technology or business method and then seek markets in which it may be of value.

This type of company rarely grants an exclusive license to one entity. Rather, it is usually more profitable to divide the licensees into markets or applications, and grant “field of use” licenses with limited rights to a number of different entities. The business dot.com boom brought a parallel boom in the patenting of business methods. Some companies have built new businesses around patented business methods, while others have pursued licensing as the basic business model.

Out-of-the-Box Licensing

Often, a company will create and patent a basic technology platform and, due to resource limitations, be able to pursue only a few of the many applications available for the technology. In this case, it is often desirable to grant licenses for use of the technology in other fields or for other applications, so long as the licensees are precluded from entering the patent owner’s sphere.

As an example, company A may invent and patent a class of adhesives useful in the automotive industry, but find that many other uses exist in the boating and aerospace industries. If the company were not inclined to pursue the boating and aerospace opportunities, it could see fit to grant licenses to companies operating in those areas in consideration of a royalty stream. The added royalties would add to the company’s bottom line as pure profit, without the need for the company to invest in the markets generating the royalties.

In other cases, a company may not pursue a technology platform altogether, or shelve it after a period of time. Still, the technology platform may have residual value to other companies. IBM is one example of a company that has leveraged its so-called “dead-wood” patents⁵ to create revenue. According to MIT Technology Review, IBM reaped \$1.7 billion from patent licensing in 2000, accounting for 15% of the company’s profit. Unfortunately, many companies do not devote the resources necessary to explore licensing opportunities for their patent portfolios. For those companies, however, a number of licensing firms have emerged. The licensing firms are in the business of seeking out opportunities in exchange for a commission on licensing revenue.

⁵ The term “dead-wood” generally refers to patents covering inventions that are not being commercially exploited by the patent owner.

Bargaining Chips

While a patent can carve out a zone of exclusivity to afford its owner competitive advantage, it also can be useful in a defensive mode to ward off a charge of infringement by a competitor or gain access to technology, i.e., by way of a cross-license or infringement counterclaim. In particular, some companies may choose or be forced to use patents in a defensive mode to ensure freedom to operate within their markets.

In industries characterized by competitors with sophisticated and aggressive patent stances, the company would be wise to arm itself with a patent portfolio of its own for use as bargaining chips. When the company finds itself on the wrong side of a patent infringement suit, the patent portfolio can be used to fire back at the plaintiff and thereby promote settlement. In many cases, settlement may involve a cross-license of patent rights between the parties. Of course, the defensive value of a patent is diminished when an infringement charge is made by a party who is not a competitor, and simply has no need for a cross-license.

The licensed patents may include issued patents and prospective patents, “buying the peace” for many years to come. The patent portfolio also is useful in a non-litigation context. For example, the company’s patents may serve as the bargaining chips necessary to gain access to a new technological area or market via a cross-license.

Picket Fence

Although a company may find that its patents can make useful bargaining chips in a pinch, more sophisticated firms may even have the foresight to develop picket fence strategies designed to leverage cross-licensing opportunities. Specifically, some companies may file patents not only on their basic technologies, but also on incremental advancements in an effort to erect a picket fence against their competitors.

A picket fence strategy generally involves the filing of numerous patent applications in view of a competitor’s issued patents and products in an effort to patent improvements over the competitor’s technology and “fence” in the competitor’s future mobility. The strategy can be useful in obtaining access to the competitor’s basic patents through a cross-licensing arrangement.

In particular a picket fence can be helpful to companies operating in “catch-up” mode relative to other players. The key is to anticipate market need for a new feature or modification, patent it, and then leverage a cross-license to the competitor’s more dominant coverage in order to gain access.

As an example, assume that Company A has a “basic” patent on a laser printing system that makes use of a new photoconductor to form images. Company B would like to gain access to the basic technology, but is aware of Company A’s patent. Company B embarks on a picket fence strategy, analyzes the future needs of the relevant market, and

predicts that the market will require new surface coatings to extend the life of the photoconductor. Company B files patent applications on a variety of different surface coatings and, as the market demand begins to ramp upward, approaches Company A with a cross-licensing proposal.

Blocking

Blocking patents are designed to cover products or processes that the company does not intend to practice, but which could be viable alternatives to competitors. If the company has invented alternative processes A and B, for example, but only intends to practice process A, it may elect to also file a patent application for process B. In this manner, the company can foreclose access to both processes A and B, leaving competitors with fewer alternatives to compete with the preferred process A.

Scarecrow

Some patents act merely as a “scarecrow” to keep competitors away from the patent owner’s business through passive enforcement. The patent owner may have no intention of enforcing the patent, but instead views competitors as ethical companies that are likely to stay clear of the area he has protected. When faced with a competitor’s patent, some less sophisticated companies may be inclined to keep their distance, rather than invest in a costly design-around analysis.

Prestige

The perception of prestige and leadership that accompanies a patent may drive some companies to seek patent protection, whether it helps their businesses or not. Educational and research institutions, who undoubtedly create a number of “impact” patents, also are known for filing applications to achieve heightened recognition for a researcher’s work. A smaller company also may seek patent coverage to impress upon investors and the market the uniqueness of its technology. During the dot.com boom, in particular, barely a day went by without a press release announcing issuance, allowance, or even the filing of a patent application for a new business method.

Cost/Benefit Analysis

The above discussion focuses on a number of reasons why companies file patent applications, but does not address whether patent filing is a good investment. Each company should undertake a cost/benefit analysis to estimate the value of prospective patent coverage in light of the company’s business objectives.⁶ The cost/benefit analysis should take into account many factors including the company’s present posture, projected

⁶ Later, it is also advisable to monitor issued patents for continued contribution to business objectives. Substantial savings in patent maintenance fees can be had by abandoning selected patents that no longer add value.

patent scope, lifespan of the patented technology, the possibility and value of maintaining the technology as a trade secret, policeability of the patent coverage among the company's competitors, the value placed upon patents by the pertinent investment community, the reception given to patents by the pertinent industry as a matter of public relations, and the geographic markets in which the patent coverage will be most valuable.

Company Posture

The business "posture" of a company can greatly influence the patent filing decision. If the company is a start-up with limited resources, the filing of multiple patent applications in various countries often will be prohibitively expensive. Instead, the company will ordinarily want to get the most bang for its buck, and defer expenses as much as possible, often by the filing of a provisional application.⁷ At the same time, however, the start-up seeking financing must show more than just conjecture. The business plan must contemplate competition and demonstrate how the company will deal with it.

In particular, investors are encouraged by a business plan that results in exclusivity, and the primary engine for exclusivity is patent procurement. For this reason, new companies will ordinarily view patent protection as a paramount concern, but must be very careful to get as much mileage out of its patent filings as possible. The smaller company also may be very interested in deferring costs if the exit strategy involves licensing of the patent portfolio or sale of the company in the near term. In this case, the prospective licensee or purchaser can pick up the cost of the expanded patent filings.

A larger company may not be as concerned about cost, and usually has established a market for its products. The larger company has usually received its funding, and filed patent applications for protection of its basic technology. In this mode, the company is more focused on creating barriers to entry for its competitors through the filing of patent applications for incremental advancements and new features. When the company is being chased by competitors, additional patents can create roadblocks, preserving the company's market share. Coverage for the additional features may be especially valuable in the event the competitors successfully design around the basic patents.

When competitors have stepped up efforts to enter the patent owner's sphere, there may be heightened interest in patent filing as the parties gear up for an inevitable confrontation. In this case, the competitors may engage in some picket fencing strategy. The patent owner typically becomes more aware of the competitors' patent filings under these circumstances, and may begin to embark on some picket fencing of its own. The patent owner may file additional patent applications for inventions that, under ordinary circumstances, would not have "made the cut." Moreover, if the patent owner still has

⁷ A provisional application is a patent application that is not examined, but instead serves as a "placeholder" for a utility application to be filed later. The provisional application is less costly to prepare than a utility application, and permits the company to defer substantial patent preparation and filing costs for up to one year.

applications pending for the more basic technology, it can amend the claims over time to track the activities of its competitors in the marketplace, and thereby avoid successful design-arounds.

In general, the posture of the company and the competitive environment will strongly influence the breadth and volume of patent filings. If a company has a standard threshold for the filing of a patent application, it may revise it upward or downward to suit the situation. The standard may descend to the seemingly trivial if the resultant patent can somehow help the patent owner in a financing, licensing, or litigation context. So, the value assigned to a patent filing can be a moving target.

Projected Scope

The strength of a patent is only as good as the claim scope awarded by the patent office. If claims are narrowed during patent prosecution, the ultimate coverage may bear little resemblance to the coverage originally sought by the company. To avoid “surprises” during prosecution or litigation, the company and its attorneys ordinarily should make efforts to become familiar with the technology area in which they are working and, in particular, the pertinent prior art.

For many patents, the concern for the patentee is not whether the claims will have sufficient scope, but whether they will stand up to scrutiny in court in view of the prior art. Many have predicted that invalidity will be the downfall of the early business method patents⁸, for example, and they may be right. In litigation, the defendant will be highly motivated to uncover prior art to invalidate the company’s patent, as invalidity is an absolute defense to patent infringement.

If the company can find the best prior art early in the process, draft its claims to steer around it, and then present the prior art to the patent office examiner during examination, there will be a much better chance of combating the accused infringer’s invalidity arguments. A patent is presumed to be valid. This presumption is very difficult to rebut when the patent office examiner has already considered the prior art on which the defendant relies in court.

So, to produce a more robust patent, it is best to present to the examiner as much of the best prior art as possible. The examiner simply will not find the best art in many instances, and sorely needs the applicant’s assistance. Although the notion of helping the examiner do his job may be counter-intuitive, it will result in a stronger patent for the company. Specifically, it pays to “test” the claims against the art within the patent office, before the defendant has the opportunity to test them in court.

This analysis will give the company a good idea of the likely scope of coverage that can be obtained. If the claim scope is likely to be very broad, the company may elect to file

⁸ Some commentators believe that the prior art resources available to the patent office are inadequate to thoroughly assess patentability of inventions related to business methods.

very broadly in a number of countries. In parallel, the company may decide to file multiple applications directed to discrete features or coverage points within the broad scope predicted for the patent. If the claim scope is likely to be quite narrow, the company can prioritize the filing relative to other filings. For example, the company may decide to file the application in a lesser number of countries, or not to file the application. After all, the decision *not* to file can save the company \$10-15,000.

Technology Lifespan

Patent office backlogs can cause huge delays in patent issuance. Indeed, patent issuance often takes three to four years. Unfortunately, some technologies are only relevant for a finite period of time, and are obsolete after three or four years. For this reason, technology lifespan is a major factor in making patent filing decisions. Recent changes to the patent laws permit term extension to compensate for patent office delays. However, term extension only affects the “back-end” of the patent term, and is most useful for pharmaceuticals with extremely long lifespans. The patent term extension does nothing for technologies with shorter fuses, such as computer and Internet technologies. Accordingly, technology lifespan will be a much larger consideration for companies in particular industries.

As an example, assume that Company A has invented a new magnetic recording technique that will revolutionize the magnetic recording industry. Further assume, however, that the magnetic recording industry will be displaced by optical recording within five years. If patent issuance takes three years, Company A will only have two years of useful term. Moreover, that term may arise during the tail end of demand for magnetic recording. As a result, Company A may seek to introduce its technology without patent protection, or significantly curtail the filing activity it might otherwise pursue. On the other hand, the volume of sales during the two post-patent issuance years may be huge, and justify patent protection.

Trade Secret Value

Some inventions, principally manufacturing processes, are susceptible to protection as a trade secret. When a product is sold, the trade secret process may not be readily ascertainable. As a result, the company may choose to maintain the process as a trade secret indefinitely, instead of teaching the public the details of the process and obtaining exclusivity for only the duration of the patent term. Some inventions may be better protected as a trade secret than by patent protection. Nevertheless, the decision to maintain an invention as a trade secret is not without risk.

First, if a competitor independently develops the same process, there is nothing that the company can do to stop it use. Independent development is an absolute defense to a trade secret misappropriation claim, because there is no act of misappropriation. In contrast, independent development generally is not a defense to patent infringement.

Second, the company runs the risk that a competitor who independently develops the process may elect to patent the process itself. In this case, the company who maintained the inventive process as a trade secret can have the process “patented out from under” him. That is, the prior use by the company may or may not be a prior use sufficient to provide a defense to a patent infringement claim. In addition, the prior use is not prior art to the competitor’s patent because the invention, having been maintained as a trade secret, was not in the public domain.

Third, by not pursuing patent protection initially, the company forecloses the right to obtain a patent in the future. The use of a trade secret process to produce a commercial product generally starts the one-year statutory bar clock ticking for onsale bar purposes. Accordingly, the company is barred from U.S. patent protection under section 102(b) if more than one year has elapsed from the time the commercial product was first sold or offered for sale.

In light of the risks associated with maintaining an invention as a trade secret, the decision to file a patent application requires a careful balance between the value of a twenty-year term versus the potentially indefinite term of a trade secret, and consideration of the likelihood that a competitor will stumble upon and patent the trade secret.

Policeability

A concern that goes hand-in-hand with the trade secret analysis, but also affects other types of inventions, is whether patent infringement will be policeable. In other words, the company should give careful thought to whether infringement will be detectable in products sold by competitors. The company may consider competitors to be ethical and mindful of the patent rights of others. Without that confidence, however, the company may be concerned that the competitor will simply “steal” the invention and use it if it believes the infringement will go undetected.

As an example, Company A invents a coating process that involves the use of a particular type of coater and a coating with a particular formulation. Because the manufacturing process is practiced behind closed doors at Company B’s facilities, infringement may be difficult to detect. If the process attributes certain physical properties to the manufactured product, however, such that the product can be used to trace infringing use of the process, Company A may elect to file patent applications rather than maintain the process as a trade secret.

Geographic Markets

When considering how widely to file for patent protection, the company needs to evaluate the size of the markets in which a product will be sold and identify locations where competitors are likely to manufacture competing products. Because infringing acts in virtually all countries include manufacture and sale, markets and manufacturing sites

should be the primary considerations in choosing foreign countries for patent filing and balancing cost. Again, the cost of filing a patent application in multiple countries can easily exceed \$100,000, so the company needs to make a rational filing decision that is based on the ultimate value of the patents.

As an example, assume that Company A is a U.S. company with manufacturing facilities in the U.S. and Argentina. Company A files a patent application for a semiconductor chip package that includes a novel interconnection interface. Company B is a French company with manufacturing facilities in France and the Netherlands. The primary markets for the invention are in the U.S., Europe and Japan. Where should Company A file its patent applications?

Generally, the answer is that Company A should file in the countries that present the largest markets for the product, as well as the countries in which its competitors manufacture. So, Company A should file in the U.S., Europe, and Japan. Should it file in Argentina? The answer is generally no, because Company A, and not its competitor, has manufacturing facilities in Argentina. There is no requirement that Company A have a patent to exploit its invention in a certain country. Rather, Company A should seek patent protection to shut down Company B's operations, none of which are in Argentina.

Where Company A plans to file a number of applications directed to different aspects of the invention, it may be able to use a so-called "shot gun" or "staggering" approach in Europe. In particular, if each of the different aspects is necessary to compete, Company A can file one of the applications in four countries, and another application in four different countries, and a third application in four additional countries, preferably with some overlap.

For example, Company A could file a first application in France, Italy, Germany, and the Netherlands. Another application could be filed in France, Italy, the United Kingdom, and Spain. The third application could be filed in Italy, the United Kingdom, Germany and the Netherlands. In this manner, Company A obtains the effective coverage of six countries for the price of four, because it staggers its coverage among the three applications. This tactic works best when each of the features in the three applications is necessary for competitive practice of the overall technology.

Investment Community

As another motivation, industry leaders have become accustomed to the impact of patents on investor perception. A company can look forward to a checklist of intellectual property issues, with emphasis on patents, when moving toward an IPO or succumbing to due diligence scrutiny as part of a merger. In many cases, however, investors do not focus on whether a company has filed patent applications to protect its business processes, but on how many patent applications have been filed.

In this manner, emphasis can be on quantity over quality. Issuance of press releases about patent allowance are routine. Although a patent has a somewhat definite scope, as determined by the claims, investors often forego that level of detail in making their investing decisions. Most institutional investors understand that the value of a patent requires extensive analysis of its scope and validity, and may only be borne out in the litigation or licensing context. In the haste of dealmaking, however, those details often must be deferred for another day.

Public Relations

For some companies, leading the patent pack can also be very important from a public relations standpoint. IBM, for example, has led for many years in the number of U.S. patents issued. This sort of information makes its way into company brochures, sales pitches, and even annual reports. Companies like IBM tend to emphasize the number of patents they hold. Notably, numbers can also be important in licensing and cross-licensing relationships. IBM, in particular, actively uses its patent portfolio each year to add profit to the company's bottom line. The top ten patent "getters" for 2001 are listed below:

IBM Corp.	3,411
NEC Corp.	1,953
Canon K.K.	1,877
Micron Technology, Inc.	1,643
Samsung Electronics Co.	1,450
Matsushita Electrical Industrial Co.	1,440
Sony Corp.	1,363
Hitachi Ltd.	1,271
Mitsubishi Denki K.K.	1,184
Fujitsu Ltd.	1,166

While some companies hoard patents and package them as products for license, others lament the effects of patents on competition, and wonder if the grant of patent rights is appropriate as a matter of policy. They cannot afford to be left behind, however, and must stock their portfolios with patents of their own. Some companies have radically changed their stances toward patenting, presumably as they observed competitors locking up patent positions around it.

In the business method area, however, there has been a public relations back-lash against patents. Industry notables like Amazon.com have found themselves at the center of controversy over patent procurement and enforcement tactics that are perceived by some as stifling innovation. Nevertheless, even patent-phobic industry players have found that they cannot turn away from patents. In most cases, companies find that the criticism and threatened boycotts have little impact on their businesses, and elect to forge ahead in building their patent portfolios.

Conclusion

With a measure of strategy, a company can build a patent portfolio that makes sense for the company's present and future business objectives. Patents are generally good to have on your side. Given the ever-increasing cost of patent protection, however, attention to value and efficiency can help you craft the patent portfolio that best supports your business objectives without making patent protection an unwarranted cost center.