

Worthless Patents Can Be Invaluable

Let's say that we are reviewing a patent with very narrow and very poorly constructed claims that read on something that doesn't seem to have any commercialization potential. Further, the prosecution history was very contentious and resulted in the patentee making quite a few concessions relative to claim scope. We believe that the patent could be jeopardized by prior art. In other words, in our assessment, the patent appears worthless.

But, are worthless patents always worthless? Can a worthless patent have value? Moreover, can a worthless patent be invaluable?

The following are reasons why so-called worthless patents can harbor value.

- Despite how ridiculous the patent may appear, the fact that it has been vetted and issued by a patenting authority (such as the United States Patent and Trademark Office) provides an aura of legitimacy. Issued patents provide an independent third party analysis of the inventive capability of the named inventors and are a measure of the confidence that the inventors have in the underlying invention (otherwise they would not have bothered going through the patent prosecution process).
- Lousy patents can have value when the patent owner is a publicly-traded company. Very few investors in publicly-traded companies have any sophistication when it comes to deciphering patent value. They rely on myopic metrics such as total patent portfolio sizes; average annual patent filings or issuances; and, patent issuances-to-research and development expenditures. Thus, the more patents (even questionable ones) a company produces and maintains, the higher the valuation the company stands to receive from the investment community.
- Another area where a "worthless" patent can have value is in the hands of a non-practicing entity. Patents with poorly written claims may even work to the NPE's advantage. If the patent is so poorly written, or the invention is unclear, or the claims are hard to construe, this just means that it will be more difficult for a defendant to dispose of the case on summary judgment (in jurisdictions where Summary Judgment motions are not put off until the eve of trial) or find relevant prior art. This plays into the hands of the NPE, for whom it's just a numbers game. Avoiding an early decision means pushing the defendant into discovery and pre-trial, which greatly increases and litigation costs. The defendant's inability to see a high probability of eventual success (especially in front of a jury) makes it worse. And nuisance settlements in the high six or low seven figures can make a worthless patent seem pretty valuable.
- Questionable patents can have decoy value. One illustration of such decoy value is that a buyer of patents often wants to make sure that they are buying freedom of operation. Having more patents and claims elevates the confidence that the buyer will have the freedom to operate in a given market, if for nothing else that the buyer will be able to assert against infringers or at least cross-license or countersue competitors. Having a large portfolio of patents protecting a market makes it extremely expensive for a challenger to assess each patent in the context of trying to carve out an uncontested segment of the market. Thus,

seemingly lousy patents can dissuade competitors from challenging patent holders.

- Another permutation of lousy patents having decoy value is that if you want to buy a patent, you can't tell the owner what the object of your true desire is because if you do, they may ratchet up the price. Buyers often have to say that they are interested in several related patents so as to disguise their true intentions. Thus, the surrounding "dead weight" of lousy patents becomes valuable in and of themselves as well as for the buyer who might be able to negotiate a lower total price for a portfolio of patents which contain the desired patents as well as decoys.

In some cases, lousy patents can be invaluable.

First, even worthless patents open doors to licensees and venture capitalists for patentees. Many venture capitalists and licensees will not even meet with inventors unless they already have patents (at least in prosecution). Funding and licensing may never take place in many of these scenarios unless there is a preceding (even lousy) patent to get the negotiations moving. Thus, even lousy patents can spell the critical difference in an invention achieving commercial success or failing completely.

Similarly, sometimes worthless patents being invaluable may be observed in the academic sector. Many of the patents there have little or no stand-alone value and they are sometimes made available for license for free. In academia, even lousy patents are a valuable vehicle for knowledge dissemination. In addition, these patents are used as a platform to establish collaborations with the private sector—which bear important financial and reputational benefits for the university.

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