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MORE ON REGULATORY

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Silicon Valley

Season Four of HBO/Mike Judge's high-tech comedy series *Silicon Valley* highlighted an issue (albeit in a comedic way) that has important real-life implications for the startup community. The show's somewhat timid protagonist, Richard Hendricks, had the next great tech idea: a decentralized Internet that relies on smartphones in lieu of traditional mainframe servers. Richard quickly realized, however, that to his dismay someone else claimed to have already patented the idea years ago, before the enabling technology even existed! What was Richard to do?

The problem is far from fiction. There are more than 9 million issued utility patents in the United States alone and, with respect to Richard's idea, more than 500,000 of these patents discuss the "internet" in some way. And, most of those patents are written in legally technical language that is both difficult to interpret without the aid of a skilled patent lawyer and amorphous at the same time (making it hard to determine whether anyone did, indeed, patent the idea before).

Take an example that we successfully litigated before. A well-known inventor by the name of Jerome Lemelson obtained a patent on material that was neither a "conductor" (a material like metal through which heat or energy can readily flow) nor an insulator (like an oven mitt). He referred to the material as "semi-conducting" or as a "semi-conductor." Years later he claimed that he, instead of Silicon Valley luminaries like Robert Noyce, invented and patented the semiconductor – a very different complex device. Interpreting what exactly his "semi-conductor" covered took years of protracted litigation.

Given this reality, startups may feel that they face a near-impossible task: engaging in the daunting task of reading thousands of potentially relevant patents, combined with the complexities of determining what those patents actually claim to invent. In response—many startups choose to take the easy route and not perform any patent due diligence before starting new projects. This strategy *can* work. But, if luck isn't shining your way, the do-nothing strategy could easily result in a litigation that costs millions to defend, and where the other side is seeking millions more in monetary damages, or worse yet, an injunction stopping you from making or selling your product. Unexpected patent litigation can be disastrous to startups and their investors, particularly when arising after significant sunk-costs in the project.

The better route, typically, is to perform some level of due

diligence before starting major projects. The level of diligence can depend upon a number of factors. For example, if you are just at the beginning stages of an idea without a real understanding of market value, a simple self-help key-word search of the easy to navigate Google Patents website can sometimes reveal potential problems and show you what others in your field are thinking about. On the other hand, if you are already far enough along to be forecasting significant market value for your idea, contacting a patent attorney early to facilitate the diligence is often the best strategy. The costs of attorney diligence are of course a concern for cash-strapped startups, but these costs can often be managed to your specific need, for example by focusing research on the most active industry players or on the aspect of your idea that you cannot live without. And diligence costs are usually only a fraction of what it would cost to defend an infringement litigation.

With diligence in hand, startups have many options upon discovering that their idea has been potentially patented by another. Ignoring the issue can lead to liability for treble damages if the startup is later found to have infringed the patent. (This is one reason some startups choose to avoid the diligence in the first place). Consider, instead, taking the following steps:

1) Find Out: do you have a real problem with Company X's patent?

One of the easier things to do is determine whether Company X's patent still presents a valid property right. Patents have a limited lifespan, for example, patents filed after June 8, 1995 typically expire 20 years after the earliest effective filing date—however, even this expiration date is sometimes challenging to determine when there are multiple patent family members and/or if the patent term was modified by prosecution events such as a terminal disclaimer or patent term adjustment. Patents also require maintenance fees and the Patent Office's Public PAIR website (https://portal.uspto.gov/pair/PublicPair) provides a convenient way to check whether a patent was abandoned for failure to pay the required fees. (Be warned, abandoned patents can be revived under certain circumstances! So abandonment only provides some level of comfort). Patents may also have been invalidated by a prior litigation challenge or through post-issuance attacks in the Patent Office such as through *Inter Partes* Review (IPR) or Covered Business Methods (CBM) proceedings. For Step 1, your best bet is to hire a skilled patent practitioner. All of the above can be performed with very little time and investment and many lawyers are willing to do this even as part of the "pitch" process for your business.

2) Determine: how big is my problem with Company X's patent?

Presuming you determine that the patent has not been invalidated and has not expired, the next step is to assess your risk. Not all patents are created equal – and an evaluation of the scope of a patent's claims can be a valuable data point before starting a project. The "claims" are presented as numbered sentences at the very end of a patent and define the scope of the legal protection afforded. Claims are typically the hardest part of the patent to understand because they are written in a specific way, and the breadth of the claims often depend heavily on other parts of the patent and even on discussions that occurred with the Patent Office prior to issuance.

A skilled patent attorney can help you understand the scope of the claims and shift your ideas to an implementation that is not reasonably covered by a patent's claims while still embodying the spirit (and marketability) of the original project. Companies can also consider the pros and cons of obtaining a written attorney clearance letter formalizing a patent

attorney's opinion that there is no infringement—a process that can be useful to defend against certain types of infringement, like inducement, and can help you defend against an allegation of willful infringement.

The attorney can also help you understand if the patent suffers from any flaws that might reduce your risk and give you confidence that you can invalidate the patent claims. Patent claims can be invalidated on a number of grounds, including by prior art attacks (i.e., someone else had the idea first or the idea was obvious) or by technical patent law requirements relating to what is disclosed in the patent. Also, a significant number of patent claims in certain fields such as software and business methods have been found ineligible for patent protection under a recent change in the law.

3) Decide: license, purchase or attack Company X's patent?

If you determine that you have risk, you can consider proactively licensing, purchasing or attacking the patent.

Invalidating a patent's claims can be a lengthy and expensive process. IPRs and CBMs are two of the cheapest and fastest routes to invalidate claims, but this route still takes about eighteen months and likely costs hundreds of thousands in attorney fees. And there are significant considerations, such as potential estoppel provisions for related litigations, that need to be considered before seeking an IPR. These proceedings are also often viewed as a declaration of war that can result in more expensive litigation brought by the patent owner.

Collaboration with the patent owner, either through license, purchase or even joint development is another approach. Each has its pros and cons. A purchase of a patent under favorable terms may give your company peace of mind to develop your project. However, those favorable terms may come back to haunt you if you are ever forced to assert your patent in a litigation and the infringing party argues to a jury that your patent should be valued at the low amount that you initially paid. Licensing can be setup in a wide variety of ways, such as configuring as an exclusive vs. non-exclusive license, and there are legal considerations for each. Patent risk management service providers, such as RPX Corporation, also offer alternatives to the traditional purchase/licensing approaches, including patent litigation insurance.

So, where does that leave Richard and the show? Perhaps Judge needs to find a place on the show for a Silicon Valley patent lawyer. *Silicon Valley* meets *Law & Order*?

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