



Stanford eCorner

Why Build a Patent Portfolio?

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April 13, 2016

Video URL: <http://ecorner.stanford.edu/videos/4610/Why-Build-a-Patent-Portfolio>

Patent attorney Jeffrey Schox gives a brief overview of the most important reasons a startup should build a patent portfolio: to increase valuation, deter patent-infringement lawsuits, and to protect intellectual property when partnering with a larger company. Schox, a lecturer at Stanford University, also explains when patents become important for startups.

Why build a patent portfolio?
What is patentable?
How does the process work?
How to identify inventions?
When to file a patent application?
What do investors want to hear?
Who to choose as a patent attorney?

Transcript

(light chatter) - Tonight we're going to talk about what do startups need to know about patent law. I'll tell you a little bit about myself. Been a patent attorney for about 18 years so, 18 years. Been in the field for about 20. Worked at big law firms for about six years, broke off, started my own firm about 12 years ago. Moved out to San Francisco, been working exclusively with startups. Our clients have raised over two billion dollars in venture capital. We work only with startups and so we're kind of very focused just on patents, just on startups. How do you build a patent strategy that makes sense early on? How do you build a patent strategy that kind of scales along with the company? I'm also an investor. I've made over 50 investments, in startups over the last decade or so.

I'm starting a venture fund and so there's, I definitely understand patent law from a startup perspective and from the investor perspective. I teach, I've taught at the University of Michigan for a couple of years and I've been teaching here at Stanford for the last decade. A class in the engineering school in the fall, and one that's cross-listed with the law school in the winter. So tonight we're going to be talking about kind of these seven different areas, and the first one we will be addressing is why. Why do startups actually build a patent portfolio? The question here, if you were to ask Fortune 500 companies and if you were to ask startups, it's going to get a wildly different answer. I think that if you were to ask people generally why do you build a patent portfolio, they would answer to enforce it against a competitor. This doesn't however make any sense for startups. And the reason it doesn't make any sense for startups is that it takes an enormously long time to get a patent. Two or three years. And it costs an enormous amount of money to actually bring a patent infringement lawsuit.

Three to five million dollars is actually probably on the low end. Not too many startups have that kind of cash lying around or that particular okay from an investor to be able to spend this kind of money to be able to enforce a patent. So if this isn't why startups actually file patents, then why do they? There are a couple of other good reasons. The first of them being that to increase valuation. This is something that oftentimes investors expect to see, and especially in technology companies. And this is something where acquirers of a company would expect and pay for when they are acquiring. But my favorite reason is probably to deter a patent infringement lawsuit. We've represented over 400 startups over the last decade. None of them have sued by a competitor. When you think about why not, why haven't a large company with a large patent portfolio, sued a small company? If the smaller company actually has patents that the larger company either does or could potentially infringe in the future, then there's no way that that large company is going to bring a lawsuit against the smaller one.

They have too much to lose. And so if this is something that they either currently infringe or might, or if this is a sprawling

multinational company, possibly some other division is infringing or going to be infringing in a year or two. Then this is something that is going to deter that patent infringement lawsuit from even happening. Keep in mind this doesn't actually protect you against patent trolls. Patent trolls, by definition, don't make anything. They don't sell anything. And so if they don't make or sell anything then no amount of patents that you own is going to deter them cause they don't infringe anything. But from a startup perspective, they can deter a patent infringement lawsuit from competitors, both small and much much larger, if they build their own patent portfolio. Another great reason to build up a patent portfolio is this concept of around some kind of joint development agreement, so some strategic partnership. And when you think about a very small company joining forces with a much much larger company, typically what the much larger company wants is the brainpower, the technology, the IP of this much smaller company.

And so filing patents, particularly the provisional applications, before that joint development agreement actually is signed can be incredibly useful. As a little anecdote, I had a client a few years ago that on the eve of their joint development agreement with a multinational company, we filed eight provisional applications. A year later we converted, I think six of those, into full patent applications. About a year or two after that, the multinational company decided to spin off a startup to actually go forward and commercialize that technology that my client and the multinational company had developed together. And the larger company told the smaller company, my client, "We'll give you 3% ownership in this startup." That's what they thought was fair. My client didn't of course think that that was fair at all, but I jumped on the phone with the patent council for the much larger company and I said, just want to remind you that we filed a bunch of provisional applications before we signed that joint development agreement protecting what was ours before we had this share. And we converted six of those and it looks like three or four of those are probably going to be infringed by this startup. Within 24 hours, that offer of a 3% stake turned into a 30% stake. This is nothing that we had to do other than just simply inform them that, hey we have patents on those. And so this can be a way of being able to protect what is yours before you actually sign a partnership with a much larger company.

These three reasons are the reasons that startups build a patent portfolio. So if you're building it, like how big does this have to be and when should you actually pay attention? And what importance or what kind of significance should you put on a patent portfolio? I found in my experience that startups typically put way too much importance, or perceive, that patents are incredibly important very early on and that they're not at a later stage. In actuality, it's the exact opposite. There are not too many good ideas that are actually patentable. The world is large, we have trillions of websites, trillions of pieces of prior art. Coming up with a good idea during a run or having a shower and to think that that's actually patentable is very unlikely. Working on a technology for a few years while you're a grad student here at Stanford is a much different story. But the concept being that it often takes a few years of working on something or a decade or two of experience in a particular field to be able to come up with an idea that's actually patentable. A lot of startups, and by a lot I mean the vast majority are started based on a good idea, but that idea isn't necessarily patentable. It might be a great way to break into a market, it might be a great way in order to deliver a solution to a problem that is long known in the industry, but it's not necessarily patentable.

Now you raise a few million dollars, you gather a few Ph.D's, and you start sprinting down a particular path and you're going to uncover ground that no one has been ever before. And that's actually what now, you are now uncovering areas of great patent ability, and of great value. So as the years go on in a company, the amount of IP that they're generating and some of the wealth and value that they're generating from an IP standpoint actually increases. But at that point they're actually building a company. You're trying to figure out how to raise a Series B, you're trying to figure out how to build your company from 20 people to 200. An IP typically isn't on the forefront of your mind. Again, early early stages... Hey I'm thinking about starting a company, I should file a patent first, I should do a patent search first is actually quite the opposite. You have a great idea and you can convince other people to go after it. Awesome.

Go for it. Figure out that, hey there's a very interesting space in the market that you can address a particular problem. Awesome. Typically 12 months later, 18 months later is where you uncover some great IP. That's not always the case. Sometimes there are some IP that comes out immediately, but by and large, I find that people put way too much importance early on and not enough later on.