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# Technology: 5 things emerging tech companies should know about litigation

Litigation counsel can not only help you meet challenges, but also potentially identify opportunities which should not be overlooked.

BY THOMAS MAHLUM, MELISSA GOODMAN

**1. Patent wars aren't just for smartphones.**

Enforcement of patent rights has become more difficult and expensive than ever before. In the last decade, the Federal Circuit has reshaped much of the law that controls proof of patent infringement and damages. This shift has meant that patent holders may face more costs at every stage of litigation. Additionally, new trial-like proceedings before the Patent Office, created by the America Invents Act, provide more opportunities for competitors to attack an issued patent.

Emerging technology companies need to consider this environment when it comes to litigation that affects their patents. Any litigation can serve as a drain on resources needed for ongoing development. Early consultation with an experienced patent litigator during patent drafting and application can help strengthen rights and help prevent competitor attacks. When litigation is unavoidable, emerging technology companies need representation from counsel skilled at creative fee arrangements and capable of a true understanding of the critical business issues at stake.

**2. IP Monetization is good—but beware of patent exhaustion.**

Emerging technology companies may find they need to monetize their intellectual property assets to keep their business going. Monetization has now moved beyond traditional direct licensing and direct patent infringement enforcement actions. New, innovative financing strategies allow investors to participate in royalty and revenue streams. These monetization techniques let companies share risk and extract value when traditional financing costs are too much or cannot be obtained.

Still, emerging technology companies need to structure monetization deals with an eye towards preventing patent exhaustion. The legal doctrine of patent exhaustion holds that an initial authorized sale of a patented item limits infringement claims against downstream users. The doctrine applies to licenses as well as outright sales. For example, in *Helferich Patent Licensing v. The New York Times,* the District Court for the Northern District of Illinois ruled that a patent holder could not pursue infringement actions based on individual wireless device users after it granted licenses to members of the upstream wireless industry. The court said that "a patentee cannot use a license agreement to carve up a patent, claim by claim, in order to receive multiple royalties." Licensing to provide ongoing operating revenue should consider the impact patent exhaustion could have on future, necessary infringement actions.

**3. Consider the protections offered by trade secret law.**

The increasing challenges of patent law and the high capital costs associated with acquiring patents have made trade secrets an increasingly popular avenue for protecting intellectual property. Trade secret law offers protection to a formula, practice, process, design, instrument, pattern or compilation of information as long as the subject of the secret is not generally known in the industry, appropriate efforts have been made to keep it secret and the secret confers a competitive advantage. It does not, however, protect non-secret information like the design of a product. And to pursue a claim, it will be necessary to demonstrate that the trade secret was misappropriated through some breach of confidence.

All fifty states offer some form of trade secret protection. While the specific definitions and requirements may vary, all have the same basic requirements as a pre-requisite to protection. In addition, the International Trade Commission will restrict importation of goods manufactured abroad upon a showing of misappropriation of a U.S. company's trade secrets. Emerging technology companies interested in protecting trade secrets should focus on innovations not susceptible to reverse engineering or independent discovery without a significant investment as those types of secrets often fare best in litigation.

**4. Don't forget antitrust law's protections and prohibitions.**

Patent law grants patent holders a legal monopoly. Antitrust laws still operate, however, to prevent patent holders from illegally extending the term of their patent or tying the purchase of the patented item to purchases of non-patented goods. For emerging technology companies, the inquiry often focuses on whether a market exists for the patented technology as the Supreme Court has held that the mere existence of a patent does not automatically create a market.

Antitrust laws have also recently—and somewhat unusually—been extended to a case where patent infringement was allegedly part of an overall anticompetitive scheme. In *Retractable Technologies, Inc., et al. v. Becton, Dickinson and Co.,* the patent holder alleged that the leading manufacturer of hypodermic syringes intentionally introduced an inferior, infringing line of syringes to maintain its market share. The patents at issue cover a new, innovative syringe. The patent holder claimed that the infringing product line, along with other exclusionary conduct like unlawful product bundling and loyalty discounts, blocked the adoption of

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superior, novel syringes from smaller rivals like the patent holder. Rejecting the alleged infringer's motion for summary judgment, the District Court for the Eastern District of Texas held that the infringement could serve anticompetitive conduct needed to assert a Sherman Act violation even though "patent infringement is not an injury cognizable under the Sherman Act.

### 5. Businesses bring class actions too.

Sometimes — as the allegations in *Retractable Technologies* illustrate — the hurdles emerging technology companies face come from non-market, anticompetitive factors. Competitors can engage in prohibited conduct in an effort to squeeze out innovation and maintain market share. Domestic and international component suppliers may illegally divide the market or form cartels, artificially inflating prices. When anticompetitive conduct impacts a similarly-situated group of businesses, an analysis should be conducted on the benefits of participation in a class-wide settlement, and whether there are viable options to pursue claims for unique and individualized losses.

Emerging technology companies face a number of challenges. In the face of the many market and business hurdles which must be overcome, the legal landscape may appear daunting. Protecting intellectual property, and facing competition which may not always appear fair, poses challenges. Experienced litigation counsel can not only help you meet those challenges, but also potentially identify opportunities which should not be overlooked.

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