SILICON VALLEY SOUTH:
THE EXPLOSION OF INTELLECTUAL PROPERTY PRACTICES IN SAN DIEGO

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Not so long ago, when the population influx to America's finest city nearly trickled to a halt, local financial institutions were acquired by out of town banking giants or put into government receivership, defense companies left San Diego at jet speed and the region's livelihood was threatened by military base closures, many wondered if there was anything left to sustain the local economy.

These days, driving along the Interstate 5 and Interstate 15 corridors, one can only be amazed by the tremendous growth in the population. Behind the housing boom, the 35,000 out-of-towners who have made San Diego their home in the last two years, and the traffic that comes along with it, is the unprecedented growth in new businesses. According to a Greater San Diego Chamber of Commerce report, the San Diego region has seen new businesses increase at an annual average of 18,300 within the last three years.

This phenomenal growth simply was not foreseen a few years ago. Who would have expected Qualcomm to become one of the fastest and most heavyweight players in wireless technology, and for MP3 to cause the whole music industry to scramble to protect its distribution channels? Looking further, it's no wonder why San Diego is coming to be known as "Silicon Valley South."

Despite the warnings of irrational exuberance, repeated interest rate hikes and the April 14 Wall Street blood bath, investments in the high tech industries continue to fly high with no sign of relenting. In the last year alone, venture capital investment has increased two-fold in excess of $200 million, according to a PriceWaterhouse Coopers survey. Membership in entrepreneur support organizations and trade groups such as the MIT forum, UCSD Connect Program, and the San Diego Software and Internet Council has never been stronger.

The growth in the high tech area has also created a tremendous demand for legal services. While the 37 public biosciences companies, with their research and development expenditures totaling $783 million in 1999 (the third largest in the United States), continue to provide a steady flow of legal work, the emergence of a much larger number of computer, Internet and communication start-ups has spawned a dense volume of legal issues. Riding on the Information Superhighway, the demand for legal services within a vast legal territory can only be limited by imagination. Intellectual property (IP) lawyers are on the frontlines to reap the economic benefits of this tremendous growth.

The surge economy fueled by the technological revolution in electronic communication, has not only attracted a large influx of money, but has also invited significant build-outs to fill the capacity gap in the legal community. Ten years ago, there were a handful of boutique IP firms. The number of IP lawyers in the local patent bar totaled approximately 30 attorneys, many of whom were employed by a few defense companies. There are now at least 25 firms in San Diego with an IP practice, according to the latest survey by the San Diego Business Journal. Benefiting from the surge economy are some 150 registered patent lawyers, doubling the pool of IP attorneys in just over five years. In addition, there is also a new breed of some 150 net lawyers who have found appeals in net lawyering.

This increase in capacity can be attributed to the large national firms that have established offices in the area offering an IP practice. According to Fred Muto, who headed the build-out of Cooley's San Diego office in 1992, the number of lawyers in his Golden Triangle office has grown from 3 to 75. Muto sees no sign of the demand for legal services from his tech-laden clients slowing down. But rather a confluence of world class educational and research institutions, the bioscience and telecommunication heavyweights, the Ligand's, Isis', Linkabit's and Qualcomm's, and the entrepreneurship of hundreds of new start-ups that have created this critical mass of legal work to feed the legal services pipeline.

Brobeck's Doug Olson shared the same observation. Olson, a 35-year veteran patent litigator, used to commute from Los Angeles while representing Hybridtech in a series of patent litigation matters. Olson recently joined Brobeck as a partner, together with eight of his other colleagues from Lyon & Lyon. Olson saw the growth in the technology-related work quadruple, and the number of IP lawyers in Brobeck's Carmel Valley office double. "What used to be litigation driven intellectual property practice has now taken shape in bringing more and more transaction issues that must be handled," said Olson. "That translates into full service support." Indeed, according to Olsen, the synergy of his IP practice with a full-service international firm such as Brobeck was a significant factor behind his move.

Gray, Cary, Ware and Freidenrich also expects to double its pool of IP lawyers by year's end, according to Terry Meador, a patent lawyer and partner at the firm. Gray Cary had established itself as the largest San Diego firm before its merger with

Silicon Valley's Ware and Freidenrich, which was envisioned as a synergistic combination of significant security and litigation practices respective of the two firms. "The investment in the resolving cultural issues of two large organizations are paying out handsomely in the latest technology revolution," said Meador. "The merger has given us a strategic alliance and strong foothold in the Silicon Valley," added Meador, "and the marriage of the security and litigation practice can now be leveraged to augment the IP practice."

Many experienced lawyers in the business and technology area are moving around for the greener pastures. This leaves many firms scrambling to fill the capacity void. While a move of an eight-lawyer patent practice group from one firm to another is not a daily occurrence, the hiring scene cannot be more frantic. Recruitment has become a challenge as entrepreneurial attorneys are joining start-ups for their stock options and the potential for IPO's. For many firms, the capacity build-out in the technology practice doesn't come without a hefty price. First year associates in an IP practice can expect compensation packages of as much as $140,000 per year.

The build-out has also been accompanied, if not necessitated by, a change in the nature of the IP practice, characterized by some as a paradigm shift from litigation to transaction. Ten years ago, the dollar volume in IP work was dominated by litigation such as patent infringement litigation and the like, and transactional work such as patent and trademark prosecution was "bread and butter."

In the last few years, while IP-related litigation work continued to be dominated by a selected number of large firms, IP-related transactional work took on a whole new and amplified dimension for a much broader number of legal services providers. Similar to the biotech companies in the late 70s and early 80s, the computer and Internet start-ups have to deal with the same challenges. Building a technology-centered company involves corporate work, securities, financing, tax, real estate and labor law issues. Let's also not forget the stock option plans! Entrepreneurs want to be primed to realize wealth on their stocks.

"But the deployment of intellectual capital requires much more," said Jake Reinbolt, a law partner who specializes in Internet law at Procopio, Cory, Hargreaves & Savitch, (PCHS). "Angel financing, venture capital, term sheets, strategic partnerships, affiliates, links and co-branding, portal software and content agreements are the tool of the trade, and cyber-squatting, domain name disputes, and copyright infringements are now the battle cries of the net lawyers."

Can one counsel a client on Internet domain name registration issues without being concerned about trademark rights? Is a US trademark registration alone sufficient to protect its owner's rights in the face of global economy? How does one deal with a client's hot business method invention that can be as significant as Amazon.com's one-click shopping and Priceline.com's reverse bidding patents? What is the real copyright issue when Napster's avails it's software program to enable online exchange of musical files among the users themselves? These are the major components of the legal services and necessary parts of the infrastructure of a dynamic economy that is being built upon the ubiquitous Internet, which extend beyond servicing the traditional intellectual property issues of trade secret, patent, trademark and copyright protection, licensing and manufacturing agreements.

Before the proliferation of email and the global reach of the Internet, law firms had to worry if clients would show up. Now the cause of concern is when they do. In the volume dense surge economy, the pressure for a law firm to perform in a timely and cost-effective manner has never been more intense.

"The key is to be responsive to the needs of new economy clients and to help them realize their place in the ecosystem of the surge economy," said Mike Kinkelaar, a partner who heads up the Business and Technology practice group at PCHS. "To derive value on the part of the legal services provider, law firms must be able to adapt and respond to the new ways of thinking as a strategic partner to their clients."

Clients demand not only protection of intellectual property, but also the deployment of intellectual capital, fast time to market and forward thinking. Protection is not enough for new economy businesses; rather a proactive approach to compete and win, technology and marketing convergence and strategic alliances. These are the Franche Lingua in net lawyering. Firms must be ready to accept this new way of thinking as things the legal minds must consider as being part of attorney-client interaction.

That of course is only part of the San Diego story as it has emerged as "Silicon Valley South," built on the backbone of the Information Superhighway. Not to be outdone is the continued success of the long list of biosciences companies with a wide-range of innovations that address the critical medical needs in the areas of cancer, skin diseases, and hormone-related diseases, as well as osteoporosis, metabolic disorders and cardiovascular and inflammatory diseases. All these are likely to feed volume to the legal services pipeline.

What are the real appeals in all these? Without a question, counseling clients in the new economy has generated a substantial amount of fee based income to many law firms. Helping a client build an enterprise from the ground floor up could mean keeping the client for years to come. If fee-based income is not enough, the lure of the stock market and IPO's have contagiously affected many of the law firms in taking equity interests in their clients' new enterprises.

In the past, participating in a client's business enterprise with an equity interest would mean having to rely on the client's management skills to generate revenues, control costs and to derive a profit, which quite often was incompatible with the need to generate cash flow the legal service provider. In most cases, start-up entrepreneurs would welcome firm's participation, viewing the firm as a partner and earning a vote of confidence from the experienced professionals. However, for law firms, that can mean carrying the risk of receiving no income for a long while.

When asked "why a shift in the way of doing business," the answer seems to echo that of the main street stock market investors..."And why not?" Who wouldn't want to be part of a company with a name prefixed with an "e" or "i", or a suffix that ends with a dot.com that's expected to go public in the next six-months or so? A more articulated reason seems to be the one offered by Gray Cary's Meador: "Just as the client is investing in the resources of the law firm as a partner, the firm should also be able to invest in the client's enterprise and its future too."

Can there be a bubble in the "New Economy?" Let's go back to the warnings of irrational exuberance, repeated interest rate hikes and the April 14 Wall Street blood bath. Don't forget that bad loans are made in good times too. Yes, there are risks in rapid build-outs and intense recruiting wars. The answer is not often simple. With a dominance in bioscience and telecommunications, a pool of high tech talent that is constantly fed by world-class research and educational institutions, San Diego's economy is likely to continue its remarkable high tech growth. In the meantime, as one Wall Street mutual fund manager said, "if you are not part of the new economy, you are in a horse buggy, and I am in a Porsche."

As long as the businesses are seeing new technology, business methods and ideas to bring about a paradigm to capture "your time, your life and your money," there is no end in sight.

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