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December 11, 2024

IP Challenges and Strategies for Startups

Meet the Speakers



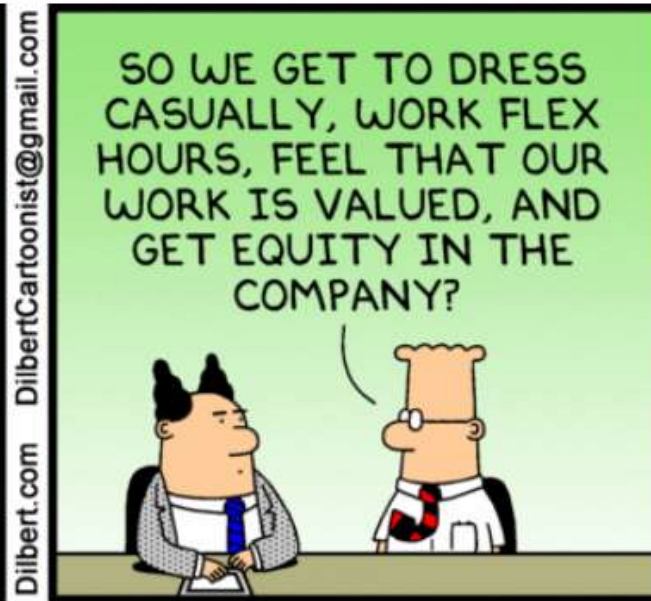
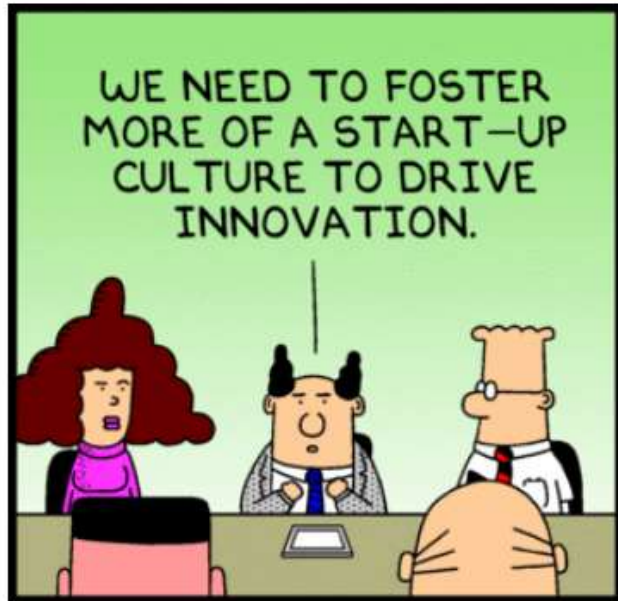
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Agenda

- Building a “starter” patent portfolio
- Protection Beyond Patents
- Common IP Agreements
 - Employment Agreements
 - Consulting Agreement
 - Joint Venture Agreements
 - Manufacturing Agreements
 - Licensing Agreements



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Building a “Starter” Portfolio

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What is Intellectual Property?

- **Intellectual Property (IP) refers to creations of the mind:** inventions; literary and artistic works; and symbols, names, images, and designs used in commerce.
- **Patents** – protect inventions and provides a temporary monopoly in exchange for public disclosure.
- **Copyrights** – protect written or recorded expressive content.
- **Trademarks** – protect words, symbols, logos, designs, and slogans that identify & distinguish products or services. Provides protection for brands, and lets people know the source of goods.
- **Trade Secrets** – protect confidential business information. Once public, no protection.

What is a Patent?

- A grant from the government of the right to *prevent others* from: making, using, offering to sell, selling, or importing the invention(s) claimed in the patent.
- **Personal property** – can be bought, sold, licensed, bequeathed, mortgaged, assigned.
- **Limited Term** – 20 years for utility and plant patents; 14 years for design patents.
- **Territorial** – must obtain patent in every country where protection is desired.
 - Choose your own coverage – which technology, which markets, and your cost sensitivity.
- **United States Patent and Trademark Office (USPTO)** – tasked with examining US patent applications and granting US patents.

What is a Patent?

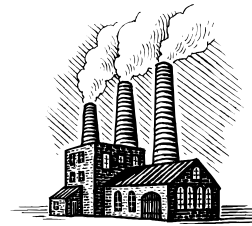
- Even the simplest product could be covered by numerous patents



Device



Combination



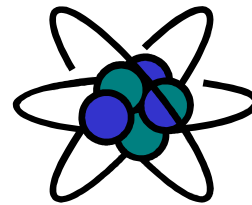
Method of Manufacture



Method of Use



Widget



Chemical Composition

- A computer processor is covered by more than 1500 patents

Why Get a Patent?

To build your business:

- To gain entry to a market.
- Positive PR for a new/young company.
- To increase attractiveness for investment/sale.
 - **“Patent pending” alone has significant weight.**
 - **Many acquisitions may be primarily based on IP.**

To use against others:

- To exclude competitors from market.
- To use as bargaining chips to exchange with other companies for use of their intellectual property.
- To generate revenue by way of royalty payments.

To protect yourself down the line:

- Telling your invention story when you are sued for patent infringement.
- Defensive filing – patent publications can serve as a defense by creating prior art for competitors.

Types of Patent Applications

- **Provisional**
- **Utility (Non-provisional)**
- **Patent Cooperation Treaty (PCT) application**
- **Design Application** – protects the *ornamental features* of an object; not nearly as common as utility applications.
- **Plant Application** – protects distinct and new varieties of plants that are asexually reproduced.

Start-up Mistake (SUM) #1:

Knowing What Your Patent Does and Doesn't Do

- Patents provide a “negative” right to keep others from doing what you’ve claimed
- Does not give you the right to practice your own invention!
- Consider a freedom to operate (FTO) before you design commercial products, and continually monitor after going to market
- **Example:**
 - Even though you hold patents on the screen and display drivers used in a cell phone, other companies may hold patents that cover the processor, memory, and applications.
- Know how long it takes to receive a patent

SUM #2: Not Being Strategic Early

- **Develop an overall IP strategy**
 - Patents are powerful, but can be narrow
 - Consider your entire set of technology, and where/how you need to protect your product or solution
 - Understand the market, your competitors' products, and where the technology is going
 - Strengthen through diversification of IP, where possible
- **Start-ups needs to:**
 - Understand their reason for obtaining patents
 - Understand which of your solutions / ideas can be patented, and have a plan on how to identify those with your teams and counsel
- **Consider which IP is best for your specific solution**
 - Patents?
 - Trade secret + trademark?
 - Copyright?



"I'm afraid you're a little late to take out a patent on the wheel, but I'm more interested in this, 'time bone' of yours."

SUM #2: Not Being Strategic Early

Relying on bad, or short-term, advice

- Start-ups have limited resources, and must spend frugally, but intelligently
- **Avoid:**
 - Filing for filing's sake
 - In some limited cases, more may be better, but definitely not in every case
 - Going with the cheapest provider without getting the quality you need
 - Cheaper to start with a worse product leaves you without the flexibility and strength you need to see the application turn into a strong patent
- Once initially filed, essentially stuck with your first application
- **Looks for IP counsel willing to become a strategic partner**
 - You don't want a scribe, you want someone to question, expand, and solidify your technical and legal position
 - Find counsel willing to learn and understand your needs

SUM #3: Thinking vs. Knowing What You Own

- **Start-up companies can sometimes (incorrectly) assume that they will own the IP created by:**
 - Employees
 - Vendors
 - Contractors
 - Joint Venture Partners
- **Government research funds may come with important strings attached**
- **Written agreements should be in place before work begins**
 - Employee handbooks
 - Contractor agreements
 - Etc.

SUM #4: Not Being Aware of Competitors' Patents

- **Start-ups are not blind to the fact that competitors will have patents, but sometimes can be unaware of the implications**
- **A competitor's patent may prevent a Start-up from making or selling a product, regardless of whether the Start-up also had its own patents on their solution**
 - Think 3M's jingle – “We didn't make the X, we made X better.”
 - The corollary...they've also now made it so the inventor of X can't include that improvement without a license.
- **As products incorporate technology from many different patents, unauthorized infringement of any patent may be a show-stopper**

Protection Beyond Patents

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SUM #5: Ignoring “Soft” IP – TM and ©

- **TRADEMARKS** protect words, names, or things that distinguish goods & services (Origin/Reputation/Branding)
- **COPYRIGHTS** protect works of authorship: software, writings, music, works of art tangibly expressed. (Message)
- **TRADE SECRETS**: information that companies keep confidential to give them an advantage. (Know-How)
- **PATENTS** protect inventions and provide rights for up to 20 years. (Creative Idea)

Purpose of Trademark Law

Trademark Law Serves Two Basic Functions:

1) Protect consumer expectations

- Prevents consumer confusion, fraud, and “passing off”
- Lowers consumer search costs by enabling reliance on trademarks as indicators of consistent quality



2) Protect trademark owner's investment

- Gives owner control over the “goodwill” or “reputation” represented by the mark

Trademark Protection – What’s Covered?

- **Trademark**

- Often used for marks used on *goods* or *services*
- “Trademark”
 - Anything that identifies that goods bearing that mark come from or have quality controlled by a single source (even if the source is unknown)
- “Service Mark”
 - Identifies a single source of services



- **Registration**

- Unlike Patents, registration not mandatory but provides numerous benefits



Trademark Protection – Unusual Marks

- **However, Trademarks are not limited to logos and product names**
 - The word “face”
 - Colors – Red, Green
 - Zippo Click, Mac boot-up sound, Law and Order Sound
 - Darth Vader Breathing:

Description of Mark	The mark consists of the sound of rhythmic mechanical human breathing created by breathing through a scuba tank regulator.
Goods and Services	Halloween and masquerade costumes incorporating masks
Goods and Services	Costume masks; voice altering toys; toy computers; handheld playthings, namely, toy action figures; [and hand held units for playing electronic games; dashboard driver figurines, namely, bobble head dolls and] modeled plastic toy figurines
Pseudo Mark	DARTH VADER; BREATHING; BREATH

Do's & Don'ts for Selecting a Trademark

- **DO:**

- conduct a search for your preferred mark
- choose a mark that is arbitrary, fanciful, or suggestive (inherently distinctive)
- choose a mark that is easy to pronounce and remember
- consider developing a “family” of related mark



- **DO NOT:**

- chose a mark without conducting a search
- choose a mark that is merely descriptive or generic
- choose a mark without considering negative connotations in English (ENTERON) or foreign languages (NOVA)
- choose a mark that may become passé in a few years (GATEWAY 2000)





Trademark Infringement

- Is the mark *likely to cause consumer confusion* as to the goods' or services' *source/sponsorship/affiliation*?
 - Similarity of the marks (sight/sound/meaning and doctrine of foreign equivalence)
 - Relatedness of the goods and services (DELTA and DOMINOS)
 - Strength of the plaintiff's mark
 - Evidence of actual confusion
 - Marketing channels used
 - Purchaser sophistication/degree of care
 - The second user's intent in selecting the mark

Polaroid Corp. v. Polarad Elecs. Corp., 287 F.2d 492 (2d Cir. 1961).

Trademark Infringement – Remedies

- **Injunctions, not monetary awards, are the norm**
 - Courts vary on when to award monetary awards
- **No automatic statutory damages as in copyright law**
- **Typically no “reasonable royalty” damages as in patent law**



Copyright – what's covered?

- **Copyrights** protect original works of authorship (literary, musical, sculptural, etc.) and have a long but limited life
- **Registration:** Unlike patents and similar to trademarks, registration is not mandatory but required to file suit
- **Term:** 70 years after the death of the author



Copyright Infringement – Proof of Ownership

Registration establishes presumption of validity and ownership

“In any judicial proceedings the certificate of a registration made before or within five years after first publication of the work shall constitute **prima facie evidence of the validity of the copyright and of the facts stated in the certificate.**”

17 U.S.C. §410(c)

Copyright Infringement – Standards of Similarity

- **“Substantially Similar”**

- Default standard

“whether an average lay observer would recognize the alleged copy as having been appropriated from the copyrighted work”

Warner Bros. Inc. v. ABC, Inc., 654 F.2d 204,208 (2d Cir.1981)

- **“Virtually Identical”**

- Applies to compilations or works consisting largely of uncopyrightable elements

Copyright Infringement – Remedies

(a) IN GENERAL.—Except as otherwise provided by this title, an infringer of copyright is liable for either—**(1) the copyright owner’s actual damages and any additional profits of the infringer**, as provided by subsection (b); or **(2) statutory damages**, as provided by subsection (c).

17 U.S.C. § 504

- **Actual damages**
 - Typically lost profits.
 - Copyright holder has the initial burden to show lost profits. *See Harper & Row v. Nation Enterprises*, 471 U.S. 539, 567 (1985).
- **Disgorgement (any additional profits of the infringer)**
 - Double dipping not allowed, but copyright owner can recover any additional profits made by the infringer.
 - Initial burden on the copyright holder.

Copyright Infringement – Remedies (continued)

- **Statutory Damages / Attorney Fees**
 - \$750 - \$30,000 per infringement.
 - If willful infringement, up to \$150,000 per infringement.
 - Requires registration to claim these remedies.
- **Injunctions**
 - Easier to obtain than in patent cases, because irreparable harm is presumed when copyright is infringed. See e.g., *Apple Computer v. Franklin Computer Co.*, 714 F.2d 1240 (3d Cir.1983); Nimmer on Copyright §14.06[A].

SUM #5: Ignoring “Soft” IP – TM and ©

- **Initial costs are much lower than patent protection**
- **Establishing early TM and Copyright protection gives start-ups flexibility**
- **Injunctive relief provides strong incentive against copycats**

What is a trade secret?



Secret: The information is not generally known or readily ascertainable



Value: The information has actual or potential value arising from the fact that it is not generally known



Reasonable Measures to Preserve Secrecy: The owner has taken reasonable steps to ensure that the information remains secret

How should you protect your trade secrets?

Laws require “reasonable measures” to preserve secrecy

What is reasonable protection?

Contracts

Physical
Security

Information
Security

Culture

Common IP-Related Agreements

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Types of Agreements: Employment Agreement



"We're pre-revenue, pre-product, and pre-idea.
So any help would be appreciated."

Types of Agreements: Employment Agreement

- **Who is Party:** Employee and Company
- **What is typically included:** employee title, job description, compensation, benefits, termination
- **What should also be included:** IP assignment, Prior Inventions, Confidentiality, Cooperation, IP disclosure
- **When should the EA be executed:** before employee starts working for the Company
- **Why:** obtain assignment/agreement to key IP provisions while Parties are on good terms; delineate what IP is Company IP and what IP is not Company IP

Types of Agreements: Employment Agreement

Important IP provisions to include in an employment agreement:

- **Invention assignment**
 - **Purpose:** to create a demarcated line as to what is and is not Company IP; to obtain Company ownership of inventions before issues arise
 - **Present assignment:** critical to have “hereby assigns” as opposed to “shall assign” or “agrees to assign”, see *Stanford v. Roche* 2011
 - **Best Practice:** also obtain/record specific assignments as inventions are generated (patent)
- **Scenarios**

Types of Agreements: Employment Agreement

Important IP provisions to include in an employment agreement:

- **Prior inventions**
 - **Purpose:** to create a demarcated line as to what is and is not Company IP
 - **What should be listed:** patent/patent applications; publications; side projects; the existence of relevant/notable trade secrets
- **Scenarios**

Types of Agreements: Employment Agreement

Important IP provisions to include in an employment agreement:

- **Confidentiality**
 - **Purpose:** to create a breach of contract action should an employee share confidential company information
 - **Related issue:** non-compete clauses
 - **Best practices:** review confidentiality clauses to ensure not overly broad
 - **Scenarios**

Types of Agreements: Employment Agreement

Important IP provisions to include in an employment agreement:

- **IP disclosure**
 - **Purpose:** to outline expectations for disclosure of inventions by employee to company; to create a breach of contract action should the employee not follow the IP disclosure process
 - **Contents of IDF:** list inventors, description of each inventor's contribution; description of the invention, important dates, how the invention different from prior technology or competitors, any prior use, sale, or publication of the invention, any government funding used, description of planned future directions (e.g., specific experiments over the next 12 mo.)
 - **Best Practice:** IDF to contain an assignment block; inventors should sign and date
 - **Scenarios**

Types of Agreements: Employment Agreement

Important IP provisions to include in an employment agreement:

- **Cooperation after leaving the company**
 - **Purpose:** to outline employee expectations; to create a breach of contract action should the employee not cooperate
 - **Related Issue:** cooperation agreements re future litigation
 - **Scenarios**

Types of Agreements: Consulting Agreement

In many ways, the IP provisions of a Consulting Agreement are be similar to an Employment Agreement

- **Who is Party:** Consultant and Company
- **What is typically included:** outline of Consultant services, compensation, termination
- **What should also be included:** IP assignment, Confidentiality, Cooperation
- **When should the CA be negotiated/executed:** before any CI is provided to Consultant; before Consultant engages in consulting services for Company
- **Why:** to understand and agree who owns what while Parties are on good terms
- Understand nature of consultancy
- Understand any concurrent employment (e.g., is the Consultant also employed by a University)
- **Scenarios**



Types of Agreements: Joint Venture Agreement

- **Who:** Two companies that want to cooperate to develop a product or technology
- **What:** Framework contract outlining general terms and conditions between two Parties
- **When:** Ideally before pattern of business established between Parties; at any time during the relationship
- **Things to Consider:**
 - **Obligations of each party**
 - **Ownership and Licenses**
 - **Patent ownership and cooperation**
 - **Leadership**
 - **Office Space / Equipment**
 - **Term and Termination**
 - **Confidentiality**

Types of Agreements: Manufacturing Agreements

- **Who:** Company and *Service Provider/Vendor*, work well in long-term, ongoing business relationships
- **What:** Framework contract outlining general terms and conditions between two Parties
- **When:** ideally before pattern of business established between Parties; at any time during the relationship
- **Why:** to reduce uncertainty and inadvertent errors; create stability; speed up ratification of future agreements
- Types of agreements governed by an MSA include:
 - Ownership of a property in development/royalties associated with new inventions or discoveries
 - Purchase orders
 - Project management/work schedules
- **Scenarios/practice tips:**

Types of Agreements: License Agreement

- **Who is Party:** Company and University; Company and Other Company
- **What is typically included:** the IP that the Licensor is providing a license to; the compensation the Licensee is willing to give Licensor in exchange for use of the IP
- **What should also be included:** Confidentiality, Reps and Warranties, Indemnification
- **When should the LA be negotiated/executed:** before Company exchanges or receives any Confidential Information from Other Party
- **Why:** outline expectations between the Parties; obtain agreement while Parties are on good terms

Types of Agreements: License Agreement

Typical Sections in a License Agreement:

- Definitions
- License
- Performance Obligations
- Payments
- Confidentiality
- Representations and Warranties
- Indemnification
- Term and Termination
- Governing law; Jurisdiction; Venue
- Exhibits

Types of Agreements: License Agreement

Typical IP that might be included in a License Agreement:

- **Patents:** government-granted limited monopoly over a specifically defined process (e.g., method of treatment), machine, manufacture, or composition of matter
 - Applicant files patent application; USPTO examines; if clear, USPTO grants patent
 - In the US, utility patents expire 20 years from filing date; design patents expire 15 years from issuance
- **Trade Secret:** information with economic value, not publicly known; wherein the TS holder makes reasonable efforts to maintain secrecy
 - Can include formulas, practices, processes, designs, business or financial information
 - Duration of protection is indefinite as long as the TS remains a TS under applicable law
- **Know-How:** the knowledge and skills needed to exploit related IP
 - Usually coupled with licensed patent rights; almost always licensed non-exclusively

Types of Agreements: License Agreement

Typical IP that might be included in a License Agreement:

- **Trademarks:** “naked licensing”/quality control clause
- **Copyright:** software
- **Mask Work:** semiconductor

Types of Agreements: License Agreement

Important IP considerations for Licensing Agreements:

- **Grant of License from Licensor to Licensee:**
 - **What:** Patent/TS/Know How/TM/copyright rights held by Licensor and granted to Licensee
 - **Terms:**
 - Exclusive/non-exclusive/partially exclusive
 - Geography; Field of use
 - Revocability
 - Sublicense

Types of Agreements: License Agreement

Important IP considerations for Licensing Agreements:

- **Compensation from Licensee:**
 - Monetary compensation:
 - License fee
 - Royalties
 - Milestone payments
 - Non-monetary compensation:
 - Cross-license
 - Investment
 - Commercial terms

Types of Agreements: License Agreement

Important **Licensor** considerations for Licensing Agreements:

- Scope of the license
- Licensor will want to secure assignment rights so that Licensor can sell their IP to a third party
- Licensor will want the right to approve the sublicensee; tie some economics to sublicense
- Licensor will want audit provisions that allows Licensor to review the economics of the License
- Reps and Warranties to secure from Licensee: that the signing party has the power to obligate the Licensee
- Pharma Patents:
 - Tie royalty payments to use of IP rather than sale of Licensed Products
 - Include Survival provisions that ensure that royalty accrued when License is valid is payable after License has expired
 - Require reversion of rights or termination of license if Licensee is not developing Licensed Products

Types of Agreements: License Agreement

Important **Licensee** considerations for Licensing Agreements:

- Be aware that a non-exclusive license allows Licensor to grant another license to a competitor
- Consider the flow of activity to a commercial product - Licensee will want sublicense rights if there is a third party who will manufacture Licensed Products that Licensee will sell
- Reps and Warranties to secure from the Licensor:
 - That Licensor has the power to grant the license
 - That Licensor has not taken any action that would prevent them from granting the license
 - That IP is valid and enforceable
- Pharma Patents:
 - Ensure all inventors have assigned the patents to Licensor
 - When licensing a batch of patents, consider if royalties should be owed only until expiration of the most valuable patent, rather than any patent

Types of Agreements: License Agreement

Important IP considerations for Licensing Agreements:

- **Termination:**
 - **How:** term (e.g., for X years); as long as the underlying IP (e.g., patents) are valid; uncured breach; insolvency; challenging other parties' IP rights; after notification from the other party
 - **What happens:** the licensed IP (irrevocable license; know-how after patent expiry); sell off period/destruction of inventory; the provisions of the license (e.g., identify provisions that must survive termination); payment of accrued royalty (careful of patent expiration)

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