



WILMER CUTLER PICKERING HALE AND DORR LLP

QUICKLAUNCH UNIVERSITY WEBINAR

# *IP Strategies for Startups*

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Speakers: Josh Fox and Natalie Pous

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- Participants are in listen-only mode
- Submit questions via the Q&A feature
- Questions will be answered as time permits
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WEBINAR

*Speakers*



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## *Agenda*

- Introduction to IP
- Patents, Trade Secrets, Copyrights and Trademarks
- Key Issues for Startups



# *Introduction to IP*



## *Why Should I Care About IP Protection?*

- Build defensible competitive advantage
- Protection against imitation or copying
- Drives investment and value
- Ensure Company can continue business if personnel leave
- Defense in IP litigation
- Potential licensing revenue





## *Categories of Intellectual Property*

- Patents covering inventions



- Trade secret rights covering your “secret sauce”



- Copyrights covering “works of authorship”



- Trademarks covering your Company and product/service branding





*Patents, Trade Secrets,  
Trademarks and Copyrights*



## *Patents*

- What to patent:
  - Inventions
  - Technology at core of your business and/or important to competitors
  - Technology with important marketing or business advantages
- Patents are:
  - Novel, non-obvious, and useful
  - Defined by patent “claims”
- Patent Rights are:
  - A negative monopoly - right to exclude others from practicing
    - **Do not** give the right to practice the invention, since other patents may be necessary to practice the invention



## *Example*

- Third party patent: covers a Styrofoam cup
- Company patent: covers a Styrofoam cup with a removable lid
  
- Questions:
  - Can the company make the cup and lid?
  - What if the company didn't know about the third party patent?
  - What can the company do to practice its patent?





## *When Should The Company Think About Patent Protection?*

When to consider: the company should consider patent protection at all stages of development

- Base patent(s) to protect the initial product/process
- Incremental patent(s) to protect any new and useful improvements made during development
- Additional patent(s) to protect any new or spin-off products/processes (and improvements)

When to file: if possible, the patent application should be filed before any sale, offer for sale, public disclosure, or public use of the invention



## *Types of Patent Applications*

### **Provisional Application**

- Serves as a one-year place holder for a utility application; secures the filing date for the invention; does not start patent term
- Allows the term "Patent Pending" to be applied in connection with the invention
- Can be much less expensive than utility
- Less formal application – no requirements for format, no claims required

### **Utility (Non-Provisional) Application**

- Formal application
- Examined by PTO to mature to an issued patent
- Once issued, provides legal rights to exclude others from making, using, selling the claimed invention



## *How The Company Can Save Costs*

The company can draft most of the provisional application to save attorney costs:

- The specification: can be as simple as a whitepaper or presentation
- The more detail, the better
  - Be sure to describe invention so one of skill (i.e., a person like you) can make and use it
  - Remove limiting language (e.g., “must,” “can only be,” “requires”) and instead use open language (e.g., “for example,” “in some cases,” “in some embodiments”)
- The figure(s): one or more PowerPoint figures, which can be incorporated in the whitepaper or presentation



## *Assignment of Patents and Patent Applications*

- Assignments transfer ownership of the patent application from the inventors to the receiving party (usually the company)
- Employee agreements should require that employee inventors assign ownership of patents to the company
- Common assignment provisions include:
  - A provision that the assignment is for both the present patent application, as well as any continuations or divisionals that stem from the assigned patent application
  - A provision that the inventors will always cooperate to help the company secure and/or enforce the patent



## *Impact of Recent Patent Laws*

- Date of invention - is the filing date of the patent application (provisional or utility, whichever comes first)
  - If done properly, provisional applications can be used to secure an early filing date
- Patent Applicants – previously, the inventor was the applicant. Now, the applicant can also include an assignee (e.g., the company)



## *Trade Secrets*

- A trade secret is proprietary information to the company, kept in confidence by the company
  - Can essentially cover anything of value, e.g., customer lists, Coca-Cola recipe
- The company must take efforts to keep it a secret, including:
  - employee agreements, nondisclosure agreements, physical plant construction to restrict access, restricting information known to groups of employees, etc.
  - Consultant Agreements and Vendor Agreements are important to maintain trade secret information of the company
  - Written procedures for access to TS/proprietary information
  - Exit interviews for employees who had access to TS/proprietary information



## *Trade Secrets vs. Patents*

### Trade secret advantages over patents

- Indefinite protection (compared to ~20 years for patents)
- Cost is only that associated with procedures to keep secret
- Can cover non-patentable subject matter
- Good if technology will quickly become obsolete

### Trade secret disadvantages to patents

- Monetary value to company: patents are easily licensed and/or transferred upon merger or acquisition
  - Trade secrets can be licensed, but it is much more difficult and complex; also more difficult to transfer in a merger or acquisition
- Disclosure of trade secret defeats the company's rights
- Competitors can hire away key employees, reverse-engineer products, or independently replicate the trade secret



## *Trademarks – What Do They Protect?*

- A trademark is a word or phrase, symbol or design, or a combination thereof, that identifies and distinguishes the source of:
  - Goods of one party from the goods of others (trademark)
  - A service rather than goods (technically a “servicemark”)
- Goods include physical goods, such as:
  - Pharmaceutical products
  - Computers
- Services include non-physical functions, such as:
  - Financial planning
  - Landscaping



## *Choosing Your Brand*

- Search to ensure no close trademarks
  - Patent and Trademark Office search engine
  - Google
- More abstract marks provide broader protection
  - A meaningless word (Zynga) or a word that is unrelated to the business (Apple) will get broader protection
  - Words that are descriptive of the business (Pets.com) will get narrower protection



## *Common Law vs. Registered Trademarks*

- Common law— a company can establish rights in a mark based on use of the mark in commerce
  - May allow company to challenge a trademark registration or application
  - Typically geographically restricted to actual use
- Federal Registration
  - A legal presumption of ownership, nationwide rights for listed categories of goods/services
  - Easier to enforce your rights
  - Investor comfort
  - Relatively low cost (if there is no opposition)



## *Copyrights – What is Protected?*

Protects expression against copying

Copyrights protect original works of authorship, including:

- Presentations
- Company operating/instructional manuals
- Whitepapers
- Computer software
- Screen displays and graphical user interfaces

Does not protect facts, ideas, systems, or methods of operation

- Although it may protect the way these things are expressed



## *Copyrights – Automatic vs Formal Rights*

- Rights automatically vest upon creation
- Formal registration is optional, but has advantages:
  - (1) Access to statutory damages
    - \$750-\$30K per occurrence without proving actual damages
    - Can increase to \$150K per occurrence for willful infringement
  - (2) Shows investors that the company is sophisticated



# *Key Issues for Startups*



## *When Should We Think About IP?*

### Pre- or Post-Company Formation?

- The founders should determine, as much as possible, the following ***before*** the enterprise is formed:
  - The types of IP contributed by each of the founders, including patentable inventions, copyright material and trade secrets
  - The IP to be developed by the enterprise and when
  - When and how to make founder-developed IP company IP



## *Founder Contributions for Equity and IP*

### Founder Contributions for Equity

- Money
- Ideas
- Potentially Registrable IP
  - Patentable subject matter
  - Copyright material
- Trade secrets for the enterprise



## *Outside Investment and IP*

Premise: Company vision and ideas (management), and IP (technology) drive outside investment

### Control of IP:

- Investors, if experienced, will not expect to have direct control of, or any claim to, company IP.
  - ***However, experienced investors will not invest unless the company owns (or in certain cases, properly licenses) its IP***
  - Some overly-aggressive investors may attempt to include a “claw-back” on IP, a means to obtain ownership of IP, under certain specified circumstances, such as liquidation or dissolution of the company



## *Board of Directors and IP*

- The Board of Directors oversees the operations of the business, including control over the assets of the company, including use and disposition of IP
- Unintentional loss of Board control by founders to other stockholders would therefore result in loss of control of company IP
- The company's governing documents (charter and bylaws), along with any other contracts agreed to among stockholders, will determine Board membership



## *Agreements with Employees and Contractors*

### Employee agreements and IP

- IP created and developed on company time using company resources
  - Assigned to the Company
- Confidentiality provisions

### Contractor / Vendor agreements and IP

- The company should own IP it paid to have developed
  - Assigned to the Company
- Confidentiality provisions



## *Agreements with Collaborators*

### Collaborative agreements and IP

- Set forth the rules related to IP ownership developed in the collaboration
- If joint ownership of developed IP, more complexity: Consider what protections, if any, can be included in the agreement



## *Non-Disclosure Agreements*

### Nondisclosure / Confidentiality agreements and IP

- Information that a party discloses under the NDA/CA cannot be (1) disclosed by the recipient or (2) used by the recipient for any purpose other than the purpose specifically stated in the agreement



## *The Next Phase of the Company and IP*

### IP Enforcement

- Expensive

### Out-Licensing IP

- Revenue generation
- No warranties regarding IP

### Merger/Acquisition

- Know the IP the company owns



## *The Next Phase of the Company and IP*

### Company dissolution

- IP has value
- Distribution of assets, including IP, in accordance with governing documents, contracts and applicable law



## Questions?



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## *Additional Resources*

For more information, visit [WilmerHaleLaunch.com](http://WilmerHaleLaunch.com)

- A website full of vital information, tools and connections needed to position entrepreneurs and startups for success
- Draws on expertise of WilmerHale's extensive team of lawyers practicing in areas critical to emerging companies in various stages of growth
- Features a growing library of video insights from lawyers, investors and other experts
- Allows entrepreneurs and investors to build knowledge, research topics with everyday impact and connect with dedicated lawyers
- Contains Document Generator