

**MORRISON
FOERSTER**

INTELLECTUAL PROPERTY BASICS FOR STARTUPS



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This presentation is educational in nature and not legal advice.

The material in this presentation does not address all of the legal issues relevant to the subject matter.

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What Is Intellectual Property?

Trade Secrets

Patents

Trademarks

Copyright

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Trade Secret Basics

What can be a trade secret?

- Formulas, methods of assembly, customer lists, internal prototypes, etc.
- Economic value from secrecy

Protection

- Secrecy, secrecy, secrecy
- Control access, marking, confidentiality agreements

Often used to block an ex-employee

Contrast to patents

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Patent Basics

Timing is critical

- Sooner is better

Disclosing IP before filing patent application can cause problems down the road

- Publications
- Offers to sell
- Sale

Freedom-to-Operate (FTO)

- What is FTO?
- How do you determine FTO?
- What happens when there is an FTO problem identified?

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Trademark Basics

What is a trademark?

- A word, name, design (product design), or distinctive symbol (logo)
- Used in commerce by a person to designate the source of origin and distinguish from the goods or services of others
- Goods and Services

Strength

- Arbitrary versus descriptive
- Use

Duration

- As long as you use it (correctly)

Creation

- Search: Federal/State/Common usage
- File: Intent to use application, Search by Trademark office/Publication, Actual Use, completion of registration, Marking TM/®

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Copyright Basics

What is copyrightable?

- Protects original works of authorship (not ideas) that are fixed in a tangible medium of expression
- Writings, music, movies, sculptures, computer programs

Marking

- © 2018
Morrison &
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Substantial Similarity

Registration

Duration

- Life of author plus 70 years
- Corporations (work for hire) 95 years from first publication

Fair Use

- Purpose, commercial vs. non-profit
- Amount of work used
- Effect on value of copied work

Common Mistakes – Intellectual Property

Failing to obtain good title to intellectual property

- The company (not the people) must own its intellectual property assets
 - prevents having the company's value walk out the door each night
 - eliminates opportunistic behavior by inventors
- Founders' assignment of pre-inception inventions to company
- Assignment of employee inventions conceived on the job
 - inducement for employment as consideration
 - limitations of California Labor Code 2870
 - developed entirely on employee's own time
 - without using employer's equipment, supplies, facilities, or trade secret information
 - does not relate to employer's business or R&D
 - does not result from any work performed by the employee for the employer

Common Mistakes – Intellectual Property

Failing to properly license technology protected by others

- Must obtain rights to use patented or copyrighted material of others
 - rights must cover your intended use of the technology
 - beware of contractual restrictions on use of APIs and website terms of use
 - beware of need for license to create derivative works
 - beware of need to sublicense to your end users
 - beware of exclusive vs. non-exclusive rights
 - beware of royalty obligations and termination provisions
- Beware of use of open source components that expose your inventions to public disclosure or public license obligations
- Beware of employees using materials of former employers
- “Freedom to operate” analysis determines under patent law whether a particular action can be undertaken without infringing the rights of others

Common Mistakes – Intellectual Property

Failing to protect trade secrets

- Trade secret = confidential business information + limited availability + economic value derived from limited availability + reasonable precautions to maintain secrecy
 - employee proprietary information confidentiality agreements
 - third-party NDAs (but not sophisticated venture capital investors)
 - limit access to need-to-know basis
 - beware of leakage from departing employees
- If patentable, trade secret law may protect invention up until publication of patent application
- Must balance desire to maintain secrecy with need to exploit perishable market opportunities (e.g., first to market faces risk of copycats)

Intellectual Property Issues – Business Development

Inbound licensing from suppliers

- Commercial licenses
- Open-source licenses (“freeware”)
- Collaborative or assisted development efforts

Outbound licensing to customers

- Direct sales (privity of contract with licensees)
- Indirect sales (sublicensing chain through distributors and resellers)

Common licensing terms

- Scope of use rights (and field of use restrictions)
- License fees or royalties
- Term (duration and termination)
- Exclusivity
- Sublicense rights
- Ability to modify, incorporate, or bundle

Intellectual Property Issues - Financing

IP due diligence

- Prosecution file reviews
- Survey of landscape

IP representations and warranties to investors

- Noninfringement of third-party IP
- Completeness of assignments
- Sufficiency of IP to operate business (actual or proposed)
- Securities law and breach of contract exposure, but no meaningful investor remedy

Intellectual Property Issues - Acquisition

IP due diligence

- Buyer's assumption of liability for target's infringement of third-party IP
- Buyer's assessment of value of IP affects price negotiations
 - duration, claim strength, enforcement history
- Risk of loss of license rights to third-party IP upon change in control
- Buyer's IP strategy

IP representations, warranties, and indemnity

- Carve outs of IP representations from deductible, survival periods, and limitations on liability
- Special purpose IP indemnities and escrows
- Very meaningful remedies (retroactive price adjustment)

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