



IP Protection Guide for Startups

**Does your startup have its intellectual property house in order?
Cutting corners early on can be costly down the line**

GOT QUESTIONS ABOUT IP PROTECTION?

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IP PROTECTION GUIDE FOR STARTUPS

INTRODUCTION

When you are starting your new exciting business, you want to develop your great product and get out into the market as quickly as possible, all the while keeping costs down.

However, at the same time, you will likely be developing intellectual property (IP). If your IP is properly protected from the beginning, then you may have acquired valuable and strategic assets. On the other hand, if the IP is not properly owned by your startup, then you may acquire some nasty disputes in the future, and when you look for investors or to be acquired, clouds on IP ownership can reduce the value of your company, or scare away investors.

Following is a discussion of some keys issues for you to consider for protecting your valuable IP.

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1. KNOW YOUR IP

Not all IP is created equal, so it's important to understand the difference between varieties of IP, and how they are created and protected.

A. TRADEMARKS

Trademarks protect the names and logos of products and services. Consider Coca Cola® and Apple®.

Don't think that obtaining a domain name or filing your corporation name with your state gives you any trademark protection. In the U.S., trademarks are primarily protected by registration at the U.S. Patent and Trademark Office. In order to qualify for a trademark, the mark must be available (no one else has already registered a similar mark) and it must not be generic or simply descriptive (e.g., "Cloud Service" for a cloud service provider). Once you have a registered trademark, you can prevent others from using the mark on similar goods and services.

On the other hand, if you start using a name and someone else has a trademark, then you might be prevented from using that name. This can be a major problem if you have already invested time and money in marketing under that name. So, it's important to pre-clear a name before using it, and then, if it seems worthwhile, file a trademark registration.

Once a trademark is granted, it's important to vigilantly protect the mark from infringers, otherwise you might lose rights that were granted. Famous marks can also become generic and lose protection (think Aspirin). There are strategies to follow to avoid such an outcome.

While logo designs can be protected by trademark registrations. Ownership of the underlying artwork is usually covered by copyright. So, see the Copyright discussion below to ensure you own the underlying copyright in the artwork.

Filing a trademark registration in the U.S. will only protect your mark in the U.S. So, if you are marketing globally, you will need to file registrations in other countries as well.

The term of a trademark can potentially be forever. Costs to register are several hundred dollars, and if an attorney is engaged, usually from \$1,500 and up.

B. COPYRIGHTS

Copyright protects the expression of ideas (not the ideas themselves). If you write a love story, the written wording of the story will be protected by copyright. However, the “idea” of a love story is not protected. So, someone else can write a story based upon a similar plot, but cannot use your wording. Software is generally protected by copyright. Though some functionality, might be protected by patents (see Patents below).

While copyrighted works are protected under the U.S. Copyright Act, unlike with trademarks and patents, no registration is required to obtain copyright protection. An original work is protected by the copyright laws once it is created (i.e., put into a tangible form). However, copyright registration with the U.S. Copyright Office does provide important enforcement benefits, like high statutory damages and reimbursement for legal fees. So, in general, copyrightable works should be registered, but works that are regularly modified (e.g., software, websites, etc.) are often better registered only when needed for enforcement purposes.

Ownership of copyright can vest in your company in several ways. A work can be created by full-time employees or by contractors, or the work can be acquired by assignment (i.e., by purchase). Under U.S. law, copyright in works created by full-time employees will automatically vest in the employer under the “work made for hire” rules. However, and counter-intuitively, copyright in works created by independent contractors will only vest in the employer if there is a written agreement that states explicitly that the work product is a “work made for hire” or the agreement contains an assignment of rights provision.

Best practice is that all employees and contractors enter into written IP agreements that vest ownership in the employer by using a combination of both “work made for hire” and ownership by assignment provisions.

Certain rights in copyright works (like software) can also be obtained by your company via license agreements. With license agreements, you only get what the license says – and no more. So, it’s important to carefully review the specific license grant provision.

The term of a copyright is the life of the author plus 70 years, or 95 years from first publication for works made for hire and anonymous and pseudonymous works. The U.S. is a party to the Berne Convention for the Protection of Literary and Artistic Works, usually referred to as the Berne Convention, which is an international agreement governing copyright. So, unlike for trademarks and patents, you will be protected internationally automatically upon creation of your copyrightable work. Filing costs to register copyrights with the U.S. Copyright Office are less than \$100.

C. PATENTS

Ideas can be protected only by patent and under trade secret law. Patents are the gold standard for intellectual property protection. Whereas, if you have developed a certain online shopping cart program, no one can copy the code without violating your copyright, but they can recreate the exact same functionality. However, if that functionality is patented, then the patent prevents anyone else from using that functionality. For instance, the one-click checkout functionality is patented by Amazon, and you won't find that functionality on any other site, until the Amazon patent runs out (which is happening this year – 2017!).

A product, process, method, or ornamental design that is new (novel), useful, and nonobvious can be patentable. Patents typically protect things like medical devices, tools, machines, software, electrical circuits, microprocessors, computers, toys, pharmaceuticals, chemical compounds, methods of treatment, manufacturing processes, and certain types of methods of doing business.

A patent gives its owner the right to exclude others from making, using, selling, offering to sell, or importing the invention claimed in the patent anywhere in the United States for the life of the patent. While a patent is "pending" the applicants have no rights to prevent anyone else from using the patent.

Under current U.S. law, the first to file a patent will have priority – regardless of which party first developed the invention. Also, a public disclosure by the inventor more than one year prior to the filing (or a public disclosure by a non-inventor prior to filing) will cause the invention to become unpatentable. The

one-year leeway for inventor disclosures is only available in the U.S. and not for foreign filed patents.

Patent applications are initially maintained in confidence by the PTO, but they are published 18 months from the earliest priority date (which is often the application filing date). Under certain circumstances the confidential period can be extended. However, once the publication is made, the invention is no longer confidential. Therefore, trade secret rights will be lost, and if the patent does not issue, then there will be no protection whatsoever. So, based upon this, and the potentially perpetual length of trade secret protection, some companies opt to just maintain trade secret protection instead of seeking patent protection. The filing of a provisional patent is kept confidential and simply maintains the filing priority date for one year until the utility patent is filed.

The term of a patent in the U.S. is 20 years from the filing date. Patents filed with the U.S. Patent and Trademark Office will only protect activity in the U.S. So, for international protection, international patent filings are required. Patent filing fees range from \$700 to \$1,600 and when using an attorney fees are usually \$5,000 and up (and up further).

D. TRADE SECRETS

Trade secrets are protected under both state and, as of 2016, under federal law (the Defend Trade Secrets Act). Trade secret protection protects ideas.

The types of information that can be considered a trade secret include the following:

Business/Commercial: Customer databases, contact lists, prospect lists, mailing lists, supplier lists, programmers lists, product development and acquisition plans, cost and profit margin information, contract bids, and business strategy documents.

Technical: Software, source code, procedures, techniques, data analysis methods, graphics display techniques, encryption and compression techniques, and optimization methods, etc.

In order for information to be a trade secret it must (1) be not generally known, (2) be subject to reasonable efforts to maintain secrecy, and (3) provide a competitive advantage to the holder of that information.

The “not generally known” requirement is pretty obvious. However, you must also make a reasonable effort to keep the information a secret – or protection will be lost. For instance, if you publish the information on the Internet, or otherwise make it generally accessible, then you cannot claim trade secret protection.

The primary way to maintain the secret nature of trade secrets is by requiring recipients of that information to enter into non-disclosure agreements. There are various forms of non-disclosure agreements, so an appropriate one should be used for each particular circumstance. You can also notify recipients that information being disclosed is confidential and otherwise establish a “confidential” environment. However, non-disclosure agreements are easy to prepare and should generally always be used.

The term of a trade secret is potentially forever. There are no registration requirements applicable to trade secrets. The cost of maintaining secrecy might be as little as preparation of a non-disclosure agreement. However, it could also be as expensive of maintaining sophisticated network security systems. While trade secret protection is generally available in most countries, the laws vary, and if not properly complied with, might result in your not being able to enforce your trade secret restrictions in those countries.

2. A WORD ON FOREIGN DEVELOPMENT AND PROTECTION

Many intellectual property rights concepts applicable in the U.S. do not apply in other countries. For instance:

- The “work made for hire” doctrine will not apply in most countries.
- Many European countries restrict employee’s abilities to transfer or waive moral rights that apply to a developed work.
- Many U.S. assignment agreements will provide that if intellectual property cannot be assigned, then the holder of the rights will grant a broad, perpetual license. However, such a grant may not be effective in some countries, at least

not prior to creation of the underlying work, and may not apply for work created prior to or outside of the employment.

- Local rules may require compliance with certain procedures and reporting, and failure to comply might result in a loss of rights.
- Particularly in the patent context, some jurisdictions provide for unwaivable rights to compensation beyond the wages paid.
- Selecting U.S. law and jurisdiction might not overrule the application of local laws.

The solution? If you can afford it, hire local counsel. If not, you may need to allow U.S. counsel to put in place reasonable workaround solutions.

3. QUALIFIED BY LICENSE RIGHTS

It's worth noting that companies license in third party technology and license out their own technology. When licensing in, the license must be reviewed to make sure that all necessary rights are obtained and restrictions are understood and complied with. When licensing out, you need to make sure that you don't give too much and inadvertently create a competitor, or grant rights (e.g., exclusivity) that will restrict your own ability to commercialize your technology through all desired channels.

4. INTELLECTUAL PROPERTY AUDITS

As mentioned above, intellectual property can be the crown jewels and most valuable assets of a business. So, it is critical that proper rights are established from the very beginning. It's a lot easier (and cheaper) to set things up right from the beginning than to try to fix problems and oversights down the line. Having good employment and contractor agreements in place is where you need to start.

It's also prudent from time to time to perform an intellectual property audit to verify that all intellectual property is properly identified and protected. Such an audit also allows a business to get all of its ducks in a row in preparation of due diligence by an investor or acquirer.

An intellectual property audit will include (1) identifying relevant IP, (2) tracking ownership from development or acquisition to vesting in the proper owning entity, (3) reviewing agreements for in bound and out bound licenses, and (4) verify necessary ongoing IP protection procedures.