

On the Road to Entrepreneurship

A Primer in Legal Issues for the New or
Growing Enterprise — Intellectual Property
Essentials

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The Program

- Today is the first of a three part series we will be presenting on basic legal issues for new or growing enterprises
- The next two parts, on the next two Wednesdays here in the same location, will cover organizational issues and financing

Introduction

- Some Intellectual Property basics
 - We won't try to make you a lawyer
- There is more to i.p. than patents
- How to avoid some common pitfalls
- How to maximize the value of your i.p.
- How to prepare for investors or exit strategies

Why is this so important?

- The principal value of most young technology companies is in 2 places:
 - People
 - Intellectual Property
- A basic understanding of i.p. rights will help assure that you properly secure your value and avoid some of the pitfalls that affect every tech company

I. P. Diligence

- You are usually in an enterprise for a reason --
 - To grow the business, which will require financing
- Normal exit strategies will be
 - IPO
 - Acquisition
 - Joint Venture
- Each of these will reach a point when the company will be subject to due diligence – an exhaustive examination of the company
- Proper care for i.p. is one of the most critical due diligence issues

Starting points

- Are *you* and your colleagues free to work in your business?
- Prior employer agreements
 - Noncompete
 - Enforceability and scope
 - Inventions and disclosure
 - Trade secret issues

University Employees

- Every university, including Columbia, has a policy regarding inventions made while at the University
- Columbia Technology Ventures (formerly STV) maintains a website at <http://stv.columbia.edu/> that gives Columbia's policy and practices on the subject

University and Government

- Much University research is based on federal funding
- Bayh-Dole Act was passed to encourage contractors, especially universities, by letting them keep rights to inventions under certain circumstances; government gets free license
- Does not affect rights between the researcher and the university
- Government has “march-in” rights to assure invention is used, historically never uses these rights

First question: Where do you get your development?

- Is the work developed in house?
- Do you use contractors?
- What written agreements do you have?
- How well do you know the provenance of the work?
 - “I’m not sure” will not work
 - Audit programs to look for open source
- If it is on the web, that does not make it public domain
- Open source?

How do you secure your own work?

- Invention and disclosure agreements
- Noncompete clause
- Do you *really* secure trade secrets
- Does your real asset walk out the door every night?
- Legal protection for intellectual property

Intellectual Property Rights

- Patent
- Copyright
- Trademark
- Trade Secret
- other rights
- Rules are often in flux



Patents

- Powerful long lasting monopoly
 - Generally 20 years from date of application
- Can be expensive to apply for
- Grant no right except right to exclude
- Protect the invention even against independent development
- Invention is an idea, not necessarily a product as such



Patents

- Require novelty
- Non obviousness
 - To someone skilled in the art
- Useful
- Patentable subject matter
 - Business methods are patentable, though courts are narrowing scope
- May be new combination of existing elements

Why are patents so tricky?

- Difficult to search
- Pending patents may not be published anywhere
- Hard to determine if applicable
- Problems of determining validity
- Stand separate from the product

Securing inventions

- Enormous Value to the company
- Not just from medical staff or engineers
- Low standard of innovation
 - May just combine existing elements
 - Courts beginning to tighten novelty required

Some Patent Pitfalls

- “On sale” bar
 - Once you sell product, you lose right to patent in most countries
 - US gives one year
- Must secure the rights from the inventor
 - Outside US employer may not be able to secure
 - Inside US employer should have proper agreement in place requiring assignment
- If publicly disclosed may lose rights

Other People's Patents

- Very hard to definitively search patents
- Infringement does not require “stealing” an invention
 - Press always confuses infringement with taking
 - Innocent infringement is still infringement
 - “Flash of Genius”
- An “offer of a license” is not a sales letter
- Price of innocent infringement may be enormous

Patent

- Good primer on patent basics is available on Columbia Technology Ventures (formerly STV) website
- http://stv.columbia.edu/index.php?option=com_content&task=blogcategory&id=21&Itemid=49

Business Method patents

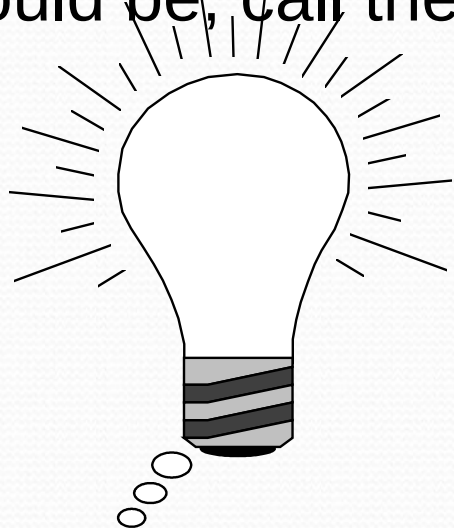
- For years “business methods” were considered not to be patentable subject matter
 - Often got around by linking to computer system
- In 1998, in the *State Street Bank* case, the CAFC held there was no statutory basis for that exclusion
- This was followed by a slew of patents for business methods and much criticism
- In 2008, in *in re Bilski*, the CAFC overruled *State Street*
- Review is now pending in the US Supreme Court

Some patent examples

- Intermittent windshield wipers
- Financial Management Account
- College Savings Certificate of Deposit
- New combinations of existing things

Remember

If you ever say “that’s a good idea,” your next thought should be, call the patent lawyer!



Understand your rights, but develop a patent strategy



Copyrights

- Commonly thought of as protecting literary works, artistic creations
- Also provide some of the most important protection for software
- Law applicable to software originates in literary works

Copyrights



- Easy to get
- Automatically apply as soon as the expression is fixed in a medium
 - Which means that you are not free to use something *even if it is not marked, even if it is on the Web*
- Preclude copying, distribution, modification (creating derivative works), public performance or display
- Do not prevent independent development
- Need not always be filed



Copyrights

- Protect “form of expression,” not ideas
- Infringement very dependent on specific facts
 - Think of literary works
- Copyright does not protect data bases as such
 - “Sweat of the brow” is not enough
- Fair Use may be a defense but the rules are quite complex



Trade Secrets

- Any information which gives a competitive advantage over those who do not know it
 - May be embodied in product, program or process
- Alternative to patent protection
 - Indefinite, no monopoly, no filing, only protects if subject matter is secret and not generally available
- Doesn't protect information acquired properly
 - Not kept secret, readily discernible, reverse engineered, independently developed

Trade Secrets

- Maintaining trade secret status
 - courts will enforce against unauthorized use only if you take “reasonable” precautions
 - NDAs, restricted access, policies that are enforced
- Failure to protect in one context can result in a loss of protection everywhere else

Dealing with outgoing information

- If you want to keep something a secret, don't tell anyone
- Have a disclosure strategy
 - Staged based on transaction, need to know, NDAs
- Nondisclosure agreements
 - Essential for trade secret status
 - Numerous variables to be considered
 - Symmetry is not symmetrical
- Use a license agreement for software

Dealing with incoming information

- Beware of contamination
- Don't accept information for curiosity
- Read and understand any nondisclosure agreement
- Use a license agreement for software
- Liability from failure to protect other's

Incoming Information

- Liability from failure to protect other's trade secrets
 - Know the NDA terms – they differ significantly
 - Consider contamination
 - Segregate the documents
 - “Need to Know” dissemination

Trademarks

TM

- Entirely different from other i.p. we are discussing
- Think of trademarks as brand names and logos
- Represent the origin of a product or service
- Protection in US comes from actual use in commerce
- Federal registration available, not required ®

Trademarks

- May be licensed
- Owner needs to police to protect his rights
- Can be lost with naked license
- Standard is likelihood of confusion
- No protection for content or ideas

Picking your name

- Getting more difficult
- Consider trademark issues
- Check the web for risk of confusion
- Always better off with fanciful than descriptive
 - E.g. Hotels.com just rejected as trademark

URLs

- A special concern today
- Issues of trademark infringement, confusion
- Special arbitration panels to resolve disputes

Software

- Special concerns about source code
- Make sure you have needed rights on third party code
- Always use a license agreement
- For source, limit access internally and limit redistribution
- Consider payments, one time and recurring
- Define buyouts well

Receiving software code

- Difference between “getting” source code and “owning” it
- Why we should almost never “buy” or “sell” software
- Why we need to carefully read the license agreement

Open Source

- A whole new benefit – and minefield
- Consists of software programs that are normally distributed free, but have serious strings attached
- “Copyleft” – the opposite of copyright
- If you incorporate open source, you may lose the right to protect your own developments
- Differences between dynamic and static linking

Joint activities

- Must be detailed agreement
- Who contributes what?
- Who has rights to the jointly developed product?
- The problem of inventions
- Joint ownership has inherent problems
 - E.g. Licensing
- What happens when the venture dissolves?
- What happens when one party is acquired?

How do you minimize risks?

- Pay attention to the rights of others
- Don't assume something on the web is public domain
- No, you are not free to use music or video without royalty
- Make sure your people know not to use unlicensed software

How do you minimize risks?

- Be scrupulous with your employees bringing in information
- If you get a cease and desist letter -- speak to your counsel
- An “offer to license” may not be an advertisement – speak to your counsel

Takeaway

- The key value of an entrepreneurial technology company is in its intellectual property –
- Don't fail to protect it!



Questions?