



MINTZ LEVIN
MINTZ LEVIN COHN FERRIS GLOVSKY AND POPEO PC

Entrepreneurial Best Practices Series: Intellectual Property Concepts and Best Practices for Entrepreneurs

Fred C. Hernandez and Pedro F. Suarez
Mintz Levin Cohn Ferris Glovsky and Popeo PC

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Goal of an Intellectual Property (IP) Program

Gives your pet a chance to contribute

Self-Propelled Belly Brush

Dogs are like everybody else. They want to belong; they want to be a part of the family. But so often those feelings are frustrated by their sense of "differentness."

If your dog is troubled in this way, the Belly Brush is just what the vet ordered. When chore time rolls around, and the family is all there pulling together, strap a Belly Brush on your little fellow, give him a chance to join the family, and watch his spirits soar.



- **Capture and protect a valuable company asset - i.e., cutting-edge technology developments**



What Is Intellectual Property?

- **Business assets in the form of:**
 - **Patents (Ideas/Concepts)**
 - **Trade secrets (Secret Information/Ideas/Concepts)**
 - Customer lists, know how, etc.
 - Coke's recipe
 - **Trademarks & trade dress (Source Identifiers)**
 - **Copyrights (Original Expressions)**
 - **Mask works (Semiconductor Fab Designs)**
- **Must take steps to protect IP**



Copyrights

- **“original works of authorship” including literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished.**



Copyrights[©]

- **Examples: Sound recording, written work, software code**
- **Copyright is secured automatically when created**
- **Registration required before enforcement:**
 - Public record of the copyright claim
 - Establishes prima facie evidence of validity
 - Enables statutory damages and attorney's fees will be available; otherwise, only an award of actual damages and profits is available.
 - Allows U. S. Customs Service to seize infringing copies at border
- **17 U.S.C. §§501-513 provides an enforce mechanism via a copyright infringement.**



Trademarks

- **Any word, name, symbol, or device to identify and distinguish goods/services and to indicate the source. *Lanham Act.***



Trademarks®

■ Examples

- Word Mark (Kleenex®)
- Trade Dress (distinctive product packaging, pink insulation)
- Other indicia of origin (sound, scent, etc.)
- Trademark must be distinctive (not generic): arbitrary, fanciful, suggestive, and descriptive

■ How do you protect a trademark?

- State and Federal law
- Federal Registration via U.S. Patent and Trademark Office
- International Protection via individual countries/WIPO
- Remedies: Trademark infringement, trademark dilution, & passing off



Trade Secret

- **Trade secret'' means information, including a formula, pattern, compilation, program, device, method, technique, or process, that:**
 - (1) Derives independent economic value, actual or potential, from not being generally known to
 - the public or to other persons who can obtain economic value from its disclosure or use; and
 - (2) Is the subject of efforts that are reasonable under the circumstances to maintain its secrecy.
 - *California Uniform Trade Secrets Act. § 3426*

Trade Secrets

■ Examples

- Recipe to Kentucky Fried Chicken
- Customer lists, supplier lists, manufacturing techniques, know how, recipes, formulas, processes, secret algorithms, inventions that you decide not to patent, etc.
- *KFC TO SHOWCASE HISTORIC SAFE & MOVE COLONEL SANDERS' FAMED SECRET RECIPE VIA HIGH-SECURITY MOTORCADE*, September 9, 2008.





Patents

- **A patent for an invention is the grant of a property right to the inventor, issued by the United States Patent and Trademark Office.**



Patents

- **Types of patents**
 - Utility patent, including provisional (MOST COMMON)
 - Design (ornamentation)
 - Plant
- **Patents provide a right to prevent copyists (“infringers”) from making, using and selling the invention, as defined in a claim of a granted U.S. Patent.**
- **It does not grant the inventor/patentee an absolute right to use the invention**
 - E.g., a patent covering a mobile wireless device and your competitor has a patent covering a specific antenna needed to use your device.



Patents

- **Provisional (temporary application)**
 - Pending for 1 year, no rights conferred except “patent pending status”
- **Non-provisional / utility patent**
 - Valid for 20 years from filing / priority date (extension available for Patent Office delays)
 - By claiming priority to provisional application, term can be up to 21 years



Why are Patents Important?

- **Prevent others from using your innovations**
 - Broad coverage
 - Note: having a patent does not give one the right to practice an invention
- **Competitive business advantage**
- **Revenue stream from licensing**
- **Access to others' technology via cross-licenses**
- **Leverage**
 - Patents are valuable as sword and shield
- **Demonstrate viability and value to investors**

What is a Patentable Invention?

- **Whoever invents or discovers any *new and useful process, machine, manufacture, or composition of matter, or any new and useful improvement thereof*, may obtain a patent therefor, subject to the conditions and requirements of this title. 35 U.S.C. 101**



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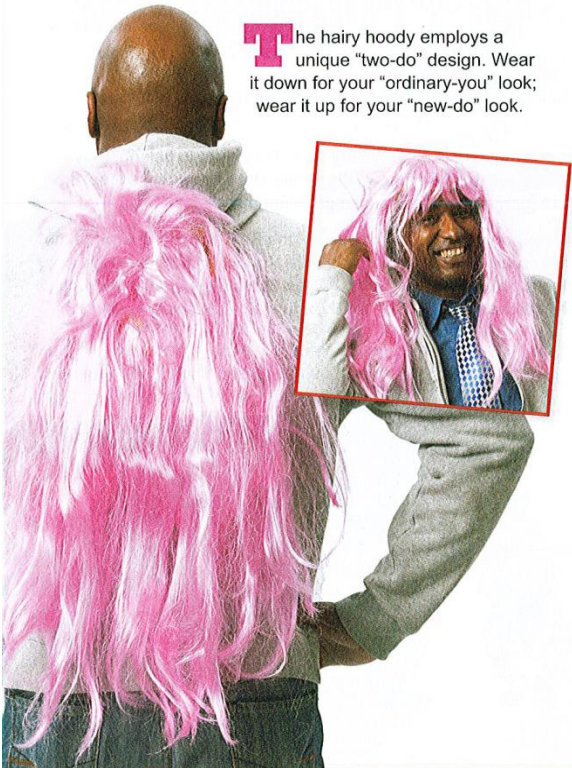


Patentable?

Insta-wig-out

The Hairy Hoody

The hairy hoody employs a unique "two-do" design. Wear it down for your "ordinary-you" look; wear it up for your "new-do" look.



What happens down there, stays down there

Soundproof Underpants

If your digestive process leads to the occasional embarrassing noise, then this could be an important innovation for you. What is it? Underpants that have been manufactured out of acoustic foam, a material specially designed to deaden sound.



Since they're made entirely from foam, soundproof underpants are obviously warm and comfortable, but their real virtue lies in their ability to kill uninvited noises. They know (in other words) how to keep a secret.



Prevents having to tell the same story over and over

Storytelling Slings



Here's What Happened to Me



Process

- **Prepare and file a patent application in the US PTO**
- **International filings (usually within 1 year) to obtain protection in other jurisdictions**
- **Argue patentability with Patent Office(s)**
- **Patent Grants (US PTO average is 3 years after filing)**
 - File Continuations
 - Enforce patent via litigation or licensing programs



After Patent Grant

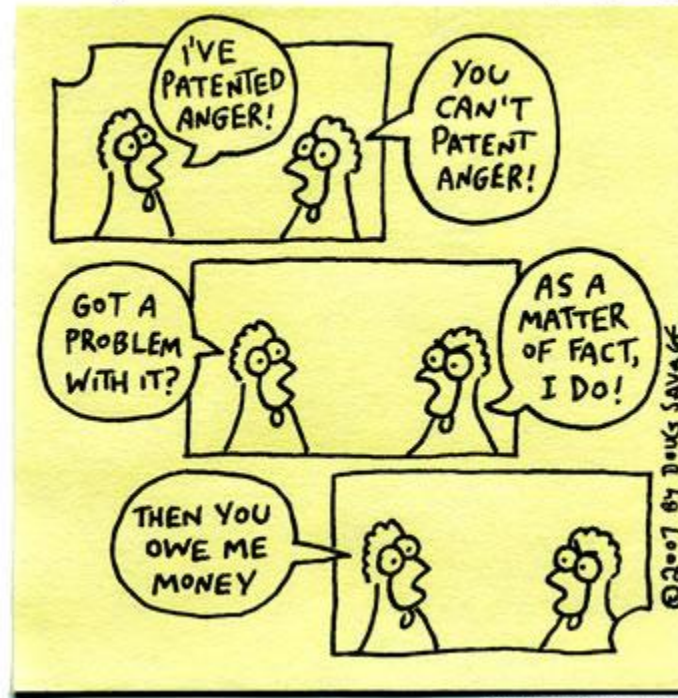


- **Mark products**
- **Enforcement**
 - **License**
 - Payment of royalties in exchange for not being sued for patent infringement
 - **Litigate**
 - Federal District Court
 - International Trade Commission
 - Appeals: U.S. Federal Circuit and Supreme Court
- **Defense/Deterrence**



Savage Chickens

by Doug Savage



www.savagechickens.com



Uses of Intellectual Property

- **Enforce exclusivity**
 - **Right to sue for damages and injunction**
 - **Detection of use by others can be a problem**
 - **Litigation brings out the defects in a patent (but if successful increases the value of a patent)**
- **Sell or transfer rights to others**
 - **Many ways to slice and dice IP**
 - **Basic right belongs to inventor or author**
- **Licenses to others**
 - **Unlimited ways to craft licenses**
 - **Field of use, territorial, exclusive, non-exclusive**
 - **Defensive cross-license**



What Investors Look For?

- **IP Program matches your business strategy**
 - E.g.: If your client base is in the U.S. and Korea, patent filings should be in both countries.
- **International applications filed wherever you have competitors, customers, and/or manufacturing capability**
- **Scope of right to exclude (claim breadth, one patent vs. a portfolio, etc.)**
- **Keep a continuation application pending**
 - Adjust claims to read on actual implementations (either yours or a competitors)



What Investors Look For?

- **Invention kept confidential (i.e., no public disclosures, publications, sales, or offers of sale) until it was filed**
- **Freedom to Operate in niche industry/space**
- **Defensive IP strategy considers competitor's IP (e.g., license-in, non-infringement arguments, design around, and cross-licenses, etc.)**
- **Offensive IP strategy**
 - **IP strategy prevents competitors from copying any key innovations in your product**
 - **Protect key innovations and gateways to the core IP (e.g., patent drug, the delivery mechanism, and an SMS text reminder system)**

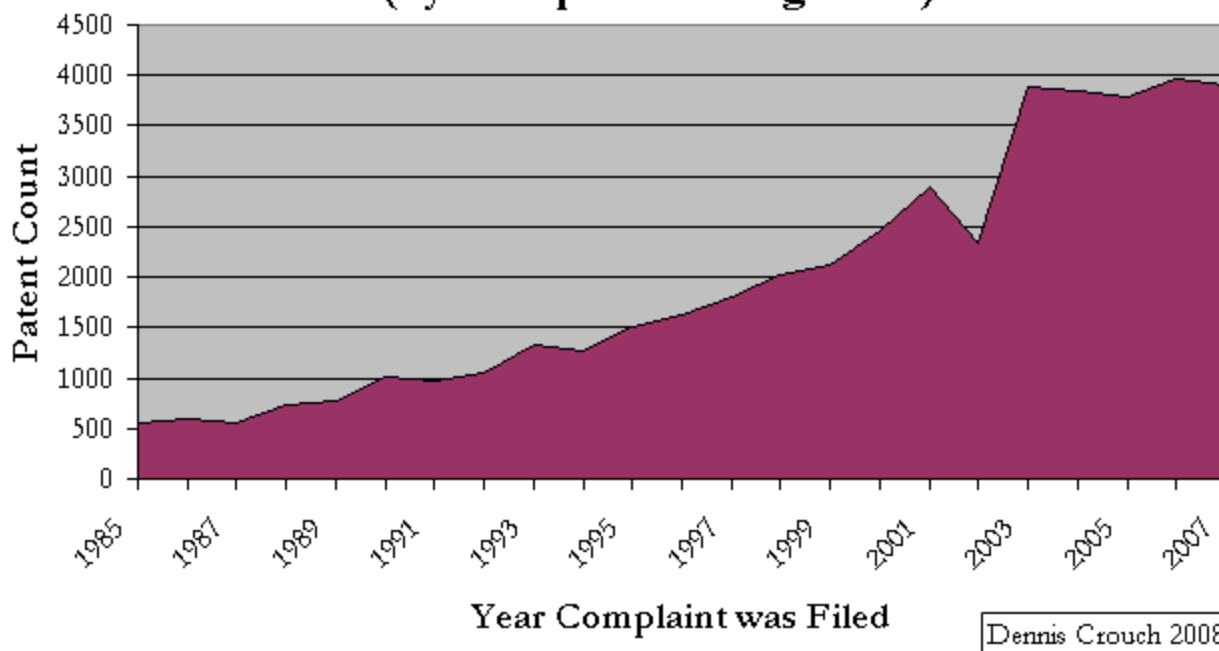


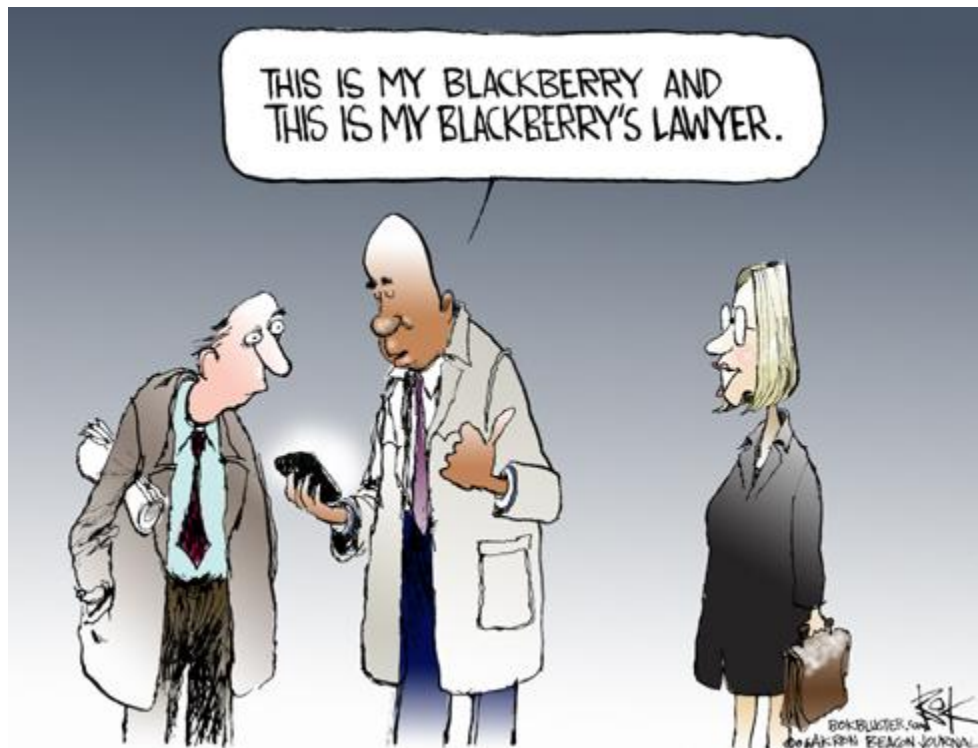
Why Has IP Become So Topical?

- IP may be critical to the survival or saleable value of a young company
 - A funding event can draw out a “troll”
- IP rights cut both ways – requiring defensive as well as offensive strategies
- Patent litigation is a growth industry driven by large damage awards and settlements
- Damage awards often exceed \$50 million – *Alcatel v. Microsoft* verdict was \$1.5 billion
- Injunctions can disrupt entire industries – e.g., *RIM* and *Vonage* cases



Number of Patents in Litigation (by Complaint Filing Date)







Dispelling Some Misperceptions

- **Software innovations can be patented!!!**
- **Owning your own patents does not mean you have the right to use what is patented**
- **Patent coverage can be broader than what is actually disclosed by the inventor**
- **The trend line since 1980 has generally increased the patent owner's enforcement rights**
- **The trend line recently has shifted and is increasingly less favorable to the patent owner**



Factors Affecting the Trend Line

- **Damage awards have been excessive**
- **Internet and business method patents have come under significant attack from Fortune 500**
- **Potential impact of injunctions can land unfairly**
- **Widespread criticism of the U.S. Patent Office from many quarters, including FTC**
- **Since 2005, Legislative reform has failed**
- **But Courts have acted to address some of the areas needing reform (e.g., willfulness, injunctions, obviousness, and software/business methods).**



When Does a Company Need an Offensive IP Strategy?

- **Is Innovation/IP essential to your business model?**
 - **New medical devices – critical**
 - **New pharmaceutical products – critical**
 - **Information technologies – must have for key/core innovations**
 - **Business method patents – must have for key/core innovations**
- **How do we capture value from the IP?**
- **How will IP procurement be funded?**
- **How will the IP strategy be managed?**



When Does a Company Need a Defensive IP Strategy?

- **The need for defense rarely becomes acute until the company is successful, i.e., you're a target once you have market share.**
- **Is the competitive landscape already flooded with patents?**
- **What specific companies are interested in the space and what is their litigation history?**
- **How much patent litigation takes place in the space already?**
- **Are the founders leaving another company to start the new one?**



Defining an Offensive IP Strategy

- **Clusters of patents reduce uncertainty of outcome**
- **Always examine your portfolio from the standpoint of someone trying to avoid it**
- **Interrogate the patent lawyers**
 - **If the patent lawyers do not have a clear strategy for protecting the company's business, you may need different lawyers**



Playing Defense Can Be Tough

- **Patent owners prevail on some of their claims more often than defendants prevail completely**
- **It only takes infringement of one patent claim to support damages or an injunction**
- **The best defense is still a good offense – it is never too late to acquire patents for counterclaim purposes**
- **“Work arounds” should be planned early if an injunction would be a problem**



Keeping Patent Litigation Manageable

- **All litigation is expensive. Patent litigation to trial is extremely expensive (\$2M to \$25M+)**
- **Reconcile bills with budget regularly and often**
- **Managing electronic discovery and expert expenses is as important as managing lawyer expenses**
- **Provide effective information flow so the lawyers can work efficiently**



1. Company X, an early stage technology company, has developed a highly innovative device, in the nature of a battery, that promises to lower the cost of storing electricity that is produced intermittently. The company plans to sell its device to remotely located users of wind and solar power for generating electricity. The company believes its principal markets will be rural settings in the US, China and India.

- What types of IP are likely to be important to the company?
- How should the company view the role that patents are likely to play in its business plan?
- How should the company decide the level of financial support that will be devoted to obtaining and protecting IP?
- At this stage in its existence, what significance should be given to IP belonging to other companies?



fhernandez@mintz.com
pfsuarez@mintz.com