Protecting Your Ideas and Brands with Patents and Trademarks

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Startups – Legal Pitfalls

• Budget for legal expenses
• Comply with gov’t regulations
  – FDA, FCC, etc.
  – Exportation of technology
• Recognize your strengths and weaknesses
• Obtain insurance: product liability
• Your attorney as a business resource
Startups – Legal Pitfalls

• Agreements
  – Founders’ agreement
  – Online legal forms
  – Watch for non-competes and trade secrets
  – Use contracts to avoid litigation
  – Indemnification clauses
    • Know when to have one
• As company grows, have a lawyer “audit” your business to check your contracts, corporate structure, title to assets, insurance, employment agreements, consultant agreements, etc.
Forming a Company

• Reasons to form a company
  – Insulate you from liability
  – Establish ownership early for stakeholders
    • **Vesting schedule**: owners get 1/48th of total shares until fully vested in 4 years, but with 1-year cliff (don’t receive until after 1-year)
  – Establish ownership of assets and obligations
    • Tangible: equipment, real property
    • Intangible: customers, receivables, bank account, patent, trademark (secure ownership in consulting and employment agreements)
  – Have structure in place for board of directors
  – Simplifies Investment Process (exchange an interest in your company for $$)
Starting a Company

• Responsibilities of having a company
  – Maintain formalities
    • Don’t comingle funds or assets
    • Company should not just be a shell
Types of Companies

- Sole Proprietorship (personal liability)
- General Partnership (personal liability)
- Limited Liability Company (LLC)
  - No tax advantage or disadvantage
  - Income is passed to owner, who pays tax
  - Few formalities: operating agreement suggested, but no annual meetings
  - Inexpensive to form
  - No personal liability
Types of Companies

• C-Corporation
  – Hold profits in company, so that company and owner each have lower income
  – But, company must pay tax on its income, and the owner pays tax on profits (“dividends”) that it receives
  – Complicated to form: articles of incorporation
Types of Companies

• S-Corp
  – Profits must be distributed based on number of shares
    • Taxed on your reasonable employee salary
    • No employee tax on dividends
    • But, must have payroll and payroll tax
  – More formalities: file annual report, bylaws, minutes, annual meetings, stock, etc.
  – Some states require shareholders to be U.S. citizen or have residency status, and not own another LLC
Types of Companies

• Non-Profit
  – Protection against liability
  – Has a purpose which is not to make profits
    • The purpose must be permitted by law
    • Charities, trade unions, hospital, schools, political organizations, public arts
  – Does not:
    • Distribute its surplus (i.e., “profits”) to the owners (uses it to pursue its goals)
    • Issue stock or pay dividends
  – Can have paid employees and directors, though usually constrained
Types of Companies

• Non-Profit (cont.)
  – Types of non-profits
    • Tax exempt or not
      – For federal tax (under 501(c)), if religious, charitable, scientific, public safety, literary, educational, protect children / animals
    • Charitable or not (donors can deduct contributions)
      – Usually also have to be chartered
    • Chartered corporation
      – Board of Directors controls
  – Look into private pro bono assistance
What is a Patent: any new and useful process (i.e. method), machine, manufacture, or composition of matter, or any new and useful improvement thereof

- Software / website / phone app is patentable
- Method of making, method of using
- Ornamental design

Not: abstract idea

Rights: exclude others from practicing your invention
Patent Standard

• Standard of patentability
  – **Formal test**: is the invention “obvious” to one of ordinary skill in the art based on the existing technology
    • Need not be a tremendous breakthrough
  – **Practical test**: any feature of your system / product / service that differs from the existing technology
    • Does it provide you with a commercial advantage?
Patent Protection

• Advantages
  – Establishes ownership (also use employment and consulting agreements)
  – Investors want to see patent and trademark protection and knowledge of competition
  – Increased value of your company as a whole (may be most valuable asset for a start-up)
  – Patent is “prior art” that prevents a competitor from patenting your process
  – Provides leverage in industry
  – Sets up possibility of cross-licensing technologies
  – Rights can be licensed or assigned
  – Positive reinforcement and establish culture of innovation
Patent Protection

• Patent Disadvantages / Considerations
  – Doesn’t give you the right to make, use or sell
    • Could be infringing someone else’s patent
    • Still need to comply with relevant gov’t regulations
  – Costs: substantial investment of time and capital
  – Territorial: must file in each country where protection is desired
    – 2-6 years to get a patent
  – Costs: substantial investment of time and capital
  – Application (proprietary information) may be published
The Provisional Application

• What is a provisional patent application?
  – Expire in one year
  – Does not become a patent
  – Is not examined
  – Lessened formal requirements – no claims

• Advantages of a provisional
  – You can say “patent pending”
  – Cheaper to file
  – Not factored into patent term
  – Can be filed quickly if danger of public disclosure or to beat potential bar date

• Disadvantages of a provisional
  – Dangerous to rely on !!!
    • Does it satisfy enablement, written description and best mode??
    • Your non-provisional will not benefit from the provisional if the provisional does not disclose each element claimed in the non-provisional
Patent Strategy ***

• STATUTORY BAR

  – A single disclosure by you may forfeit rights in countries outside the U.S. and starts a 1-year grace period in the U.S.

  • Disclosures include commercial use (even if secret), printed publication, public speaking, sale, offer for sale, ordering a commercial quantity from a supplier

  • Non-disclosure agreements are not always a guarantee

  • But, may not fully preclude a patent if the disclosure was not enabling

  – Strategy:  *file your application in the U.S. “before” you disclose the invention. That will preserve your right to file abroad later.*

    • Can’t rely on an incomplete provisional application to preserve your rights
Patent Strategy

• STATUTORY BAR (cont.)
  – Common activities by start-ups / students / researchers that “may” trigger the 1-year U.S. grace period and preclude foreign protection:
    • **Speaking**: Business Plan Competition or venture fair;
    • **Publication**: Your research paper (dissertation) online or catalogued / indexed in school library is a publication;
    • **Speaking**: classroom discussion (possibly), poster session, speaking engagement;
    • **Publication**: An National Science Foundation grant proposal and Nat’l Institute of Health grant application can be a publication;
      – But, a publication disseminated by mail is not prior art until it is received by at least one member of the public;
      – And, a submission for review by a scientific committee prior to publication is not itself a publication.
  – Consult an attorney
Patent Pitfalls

• Failing to protect inventions!
  – Misperception of the standard of patentability
  – Does it provide a commercial advantage

• Don’t delay
  – File “before” you disclose the invention
  – First-to-file system (started March 16, 2013)
  – Invention doesn’t have to be reduced to practice

• Inventors should all be with your company
  – Avoid loss of rights in the event of disputes
  – Employment and consulting agreements should assign rights to your company
  – Collaborations raise ownership issues
  – Grants raise ownership issues
Patent Pitfalls

• Continuously update your patent portfolio
  – Patent those “improvements”
  – Record progress in log book

• The “authors” of a paper are not always the “inventors” of the invention

• A research publication can be used as a patent application
  – But include a basic discussion, drawings, and background of the invention
  – Also include features being developed, even if not yet tested or reduced to practice
Patent Pitfalls

• Mark products with patent numbers and “patent pending”; remove notice once patent expires

• Fail to apply for design patents
  – Do goods have any unique, ornamental or visible aesthetic shape, layout or design (i.e., non-functional aspects)

• Foreign Protection
  – Extend protection into countries where you have a distributor, customers, manufacturer, subsidiary
IP Risks – Mitigation Practices

• Before product launch:
  – Conduct a “clearance search” to reduce risk of patent / trademark infringement

• Maintain a patent portfolio
  – Patentability searches will reveal potential problems
  – Obtain patents to establish prior art and dates of commercial activity
    • Minimize possibility of being sued by a “patent troll”

• Maintain a “watch service”
  – Have an ongoing review of competitor patent portfolios (published applications and issued patents)
  – Potential risk of “willful” infringement
Trademarks: identifies the source of goods / services

- Distinguish goods (™) / services (℠) from your competitors
- Use ® when mark is registered
- A word, name, symbol, logo or device
- Just about every company is using a trademark of some sort
- You can apply now, and don't have to wait until you start making sales
- The strongest marks are those that are arbitrary, and not descriptive of the goods / services you provide
Trademarks – Pitfalls & Strategy

- Forming a company may give you a state trademark, not a federal trademark
- A trademark is not necessarily available just because the domain is available
- Allows you to establish your brand and build goodwill
  - Think global – Chevy Nova means “no go” in Spanish
  - Distinguish your products and services from those of your competitor
  - Indicates a level of quality
- Select an arbitrary, fanciful or coined mark
  - EXXON® for gasoline
  - Do not describe the goods or services
Trademarks – Pitfalls & Strategy

• Obtain a search and opinion letter
  – Avoid inadvertent infringement and loss of goodwill

• Promptly file an application with the PTO
  – Use is NOT required to file application
  – File based on your intent-to-use

• File in foreign countries where you have distributors
  – Avoids dispute over ownership

• Use “TM” or “SM” before registration
• Use “®” after registration
• Maintain a watch service
Intellectual Property - Copyrights

• **Copyrights**: protects expression, not underlying idea
  – Only protects against “copying”
  – Covers expression, not underlying idea
  – Protects literary, dramatic, musical, artistic expression or software
  – User manuals, articles, papers, photographs, website
  – © [owner name], [year]
Trade Secret Protection

- Trade secret protection
  - Concept unlikely to be disclosed during the normal course of business
  - Difficult to reverse-engineer
  - Take affirmative steps to protect the information as a trade secret
  - Employment agreements, consulting agreements
  - Risk of competitor developing independently and patenting
  - Risk of theft
  - What is the value of a trade secret?
- Risk that competitor can patent
- Generate “prior art” by publishing the invention
Links

• U.S. Patent & Trademark Office
  – www.uspto.gov
  – Search and file U.S. patents and published applications
  – Search and file trademarks

• PACER – search litigation
  – http://pacer.uspcis.uscourts.gov/

• U.S. Copyright Office – information and forms
  – www.copyright.gov

• Corporate Information
  – State websites walk you through how to form a company
  – May need to register to do business in more than one state
Questions?

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