

# IP Basics for Entrepreneurs and Tech Startups

## *Part 1 of 2: Patents and Trade Secrets*

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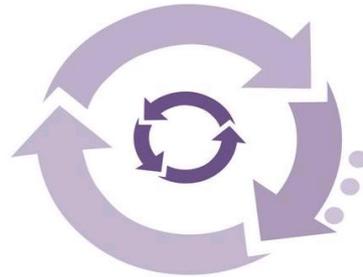
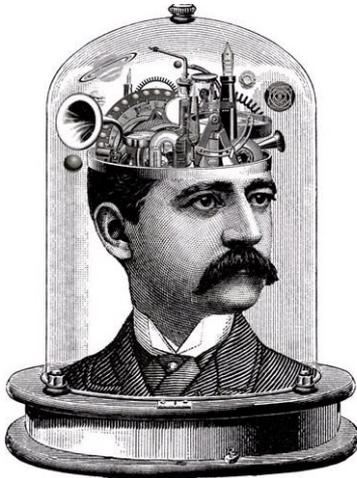
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**EDWARDS**  
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# What is intellectual property and why is it relevant to your business?

IP is an important asset for virtually *any* company.  
Even more so for *technology* companies.



**Ideas! → Execution! → Enterprise!**

# Ideas are critical to business, *although not whole story*, and they must be protected

IP as an asset class is one of the strongest pillars supporting the US economy and responsible for 22 million jobs and 35% of US GDP in 2010 – Department of Commerce

“The value of an idea lies in the using of it.” —  
*Thomas Edison, General Electric Co-founder*

“It’s not about ideas.  
It’s about making  
ideas happen.”  
—*Scott Belsky,*  
*Behance co-founder*

“Ideas are easy.  
Implementation is hard.”  
—*Guy Kawasaki, Alltop*  
*co-founder and*  
*entrepreneur*

“No more  
romanticizing about  
how cool it is to be an  
entrepreneur. It’s a  
struggle to save your  
company’s life – and  
your own skin – every  
day of the week.”  
—*Spencer Fry,*  
*CarbonMade co-*  
*founder*

# Intellectual property at 20,000 feet

IP = intangible creations of the human mind embodied in tangible forms

Main forms of legal protection of IP are  
(1) patents,  
(2) trade secrets,  
(3) copyrights, and  
(4) trademarks

IP laws exist at both  
**federal and state** levels – seek to  
create balance between *incentive to  
create* and *public access*  
(e.g., limited patent term)

The law gives these  
creations the **status of  
property**  
(like real and/or  
personal property, e.g.,  
house or wristwatch)

First step in protecting your IP no  
matter the type is to *maintain  
confidentiality* (think *agreements  
and need-to-know basis*)

# Key differences among types of IP

What is your intangible asset?	Type of legal protection	Applicable laws	Mode of protecting
Invention	Patent	Federal	Apply – teach invention to world in exchange for limited monopoly right.
Valuable ideas and information, know-how	Trade secret	State	Take reasonable steps to maintain secrets – does not protect against independent conception or reverse engineering.
Creative works	Copyright	Federal and state	Inherent at creation – but limited to <i>tangible expression</i> of idea, not idea itself.
Goodwill, source of goods, quality as indicated by designs, words, logos	Trademark	Federal and state	Actual use of mark in commerce; benefits to federal registration.



# A closer look at patents



- ❑ A document that discloses and claims an invention
  - “Specification” provides a description of the invention, i.e., how to make and use
  - “Claims” define the invention in terms of its legal scope
  - Congress provides for three types: utility, design, and plant
- ❑ A patent provides a **limited monopoly** – a right to exclude others from making, using, or selling an invention in the U.S. for the term of the patent (20 years) *in exchange for* making and fully disclosing the invention to the public
- ❑ Rights are exclusionary, so a patent owner is responsible for enforcing their rights against others



# A closer look at patents



## □ Utility:

- Main type of patent
- Based on function or use of an invention
- Relates to use/application of ***new and useful*** ideas, not abstract ideas per se
- Patentable types of inventions include ***compositions of matter, articles of manufacture, processes, and machines***
- Legal requirements: ***novelty, nonobviousness, written support***

□ Design: protects ornamental appearance of object (but not function)

□ Plant: protects new varieties of asexually reproduced plants

# Patents and your business: why bother?

- Consider your goals before patenting
- Patents can be important corporate assets that add value
- Prevent competitors from using your inventions (*but remember, you have to **enforce** your rights*)
- Protect an area of research while you identify a product
- Provide a licensing revenue
- Showcase your technology as a magnet for potential investment
- Provide leverage for co-licensing deals when partnering



# A closer look at trade secrets



Google Search

I'm Feeling Lucky

Valuable ideas and information, or “know-how,” developed by a business that gives a **competitive advantage** to that business and is kept secret by reasonable means



**Examples:** specialized manufacturing device or process, specialized customer list, business method, computer program for determining discounts or rebates, search algorithm (e.g., Google®), food/beverage formula (e.g., Coca-Cola®), plan for a device



Protected by **state law**



# How do I protect my trade secret?



*THE LAW:* a trade secret is “**information**, including a formula, pattern, compilation, program, device, method, technique or process” that (1) **derives** actual or potential **economic value** from the fact that it is **not known or readily ascertainable by others**; and (2) is subject to **reasonable efforts to maintain secrecy**. (Uniform Trade Secrets Act – which guides state law)

**Is my secret information a trade secret?** No black-line rule! Courts look at these factors:

- *How widely is the idea/information known outside the business?*
- *Who within business knows the idea/information?*
- *What measures were taken to ensure secrecy of the idea/information?*
- *Difficulty for others to properly acquire or reverse engineer?*
- *Is the idea/information continuously relied upon or is it a “one-shot”?*
- *How valuable is the idea/information to business/competitors?*
- *How much money was expended to develop idea/information?*



# Maintaining confidentiality is key



- locking doors / restricting access to employees
- using passwords on documents / computer access
- place confidentiality blocks on documents
- internal need-to-know disclosure policies
- clean desk policies
- employee badge policies
- employment agreements
- non-disclosure agreements with third parties



# Patents v. trade secrets



- A **trade secret** cannot be enforced unless stolen. **Patents** are enforceable until they expire.
- A **trade secret** arrived at independently by another may be used without liability. A **patent** owner may block another from using an invention even if it was arrived at independently.
- A **trade secret** can be used to protect ideas that may be difficult to **patent** but which still have economic value.
  - Patent ineligible technology
  - To avoid patent expenses
  - Technology that is difficult to reverse engineer

# Patent and trade secrets practice tips



- Develop clear **IP policy** for generating and protecting IP as part of business plan
- Consider filing a **patent application** before you disclose a **trade secret** to any third party (even if under agreement)
- Use NDA/confidentiality agreements – be clear with duration and description of information
- If agreement involves transfer of materials, agreement should include terms that control IP
- Conduct business internally and externally on a **need-to-know basis**
- Consider **IP landscape study** at an early phase of development as part of market research – “know path of least resistance” or “design around” options
- Conduct **freedom-to-operate study** once product and/or service is known – avoid infringement or have license-around strategy

## Part 2: copyrights and trademarks

Check back soon for our next installment where we will review copyrights and trademarks



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