

# IP Basics for Entrepreneurs and Tech Startups

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

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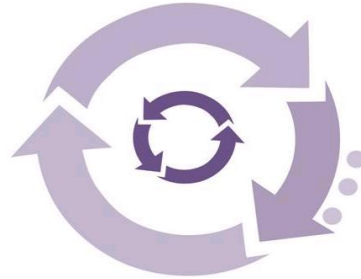
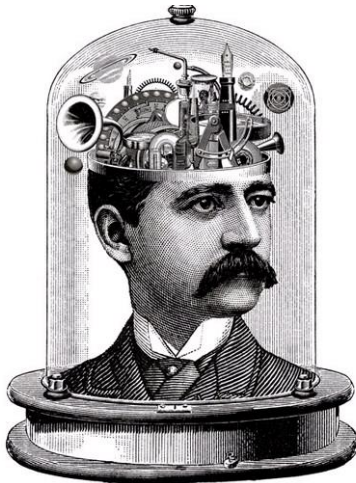
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**EDWARDS**  
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# What is intellectual property and why is it relevant to your business?

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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