



Conducting an Initial IP Start-Up Consultation

Jon M. Garon & Susan Stephan

General Representation Issues

- As a potential client, the party or parties interested in representation should complete an intake questionnaire
- On the form and in the follow-up interview, the expectations of the clients and the lawyers should be made clear
- **Review parties for potential conflict**
 - All proposed owners
 - All related parties
 - All current and recent employers of the proposed owners
 - If potential, but not actual conflicts exist, assess the appropriateness of seeking waivers
 - The retainer agreement will then reduce those understandings to writing and be signed by the lawyer and representing party
- **Explain attorney confidentiality, even without a decision to retain counsel**
 - Client's duty to maintain confidentiality
- Identification of the client: Typically, the client will be the entity being formed rather than the individuals. The communication, therefore is by the founders in their capacity as future officer of the Company and its affiliates
- Clarify fees and payment structures
- Check for filing deadlines or triggering events
 - e.g., for filing trademarks, patents, etc.
- Review the costs involved in the representation for both fees and expenses
- Review the purpose of the consultation for scope of representation, which may be general or may be limited to a particular aspect of the representation
- Confirm that the intake meeting is a step prior to accepting representation, and representation will only be accepted after the firm approves accepting the client and the initial payment is received

Two Stages: IP and Business

Intellectual Property

- Copyright
- Trademark
- Trade Dress
- Utility Patent
- Design Patent
- Publicity Rights
- Trade Secret
- Confidential Business Data
- Confidential Personal Data
- Other

Business Planning

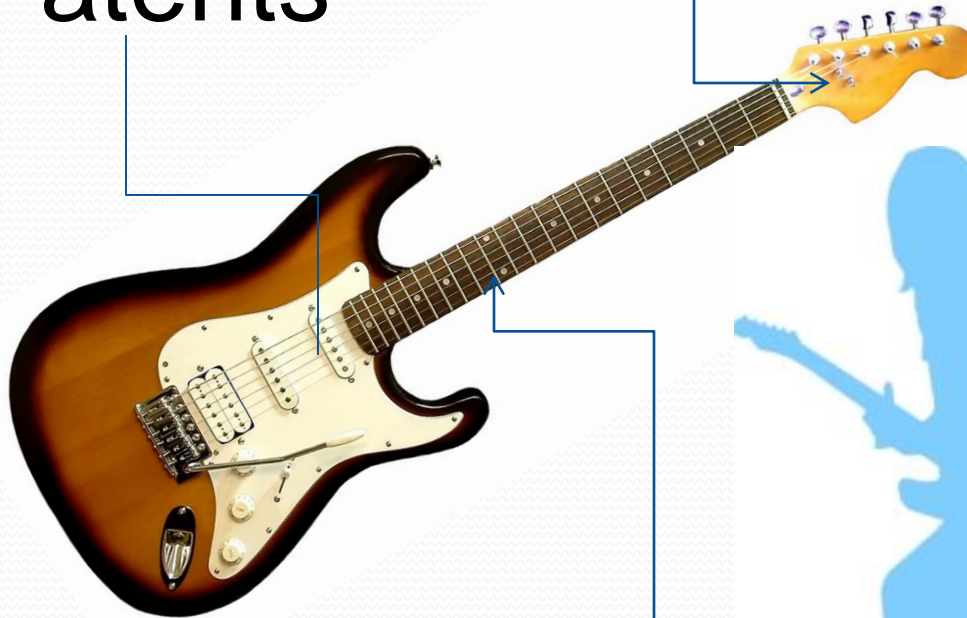
- Business Entity Form
 - C-Corp
 - S-Corp
 - LLC
 - Single-Person entity
 - Other
- Tax Implications
- Ownership
- Initial Management
- Financing
 - Self-funded for initial stage
 - Angel funding
 - Crowd Funded
 - IPO

Categories of Intellectual Property Rights

Patents

Trademarks

Copyright



Trade Secrets

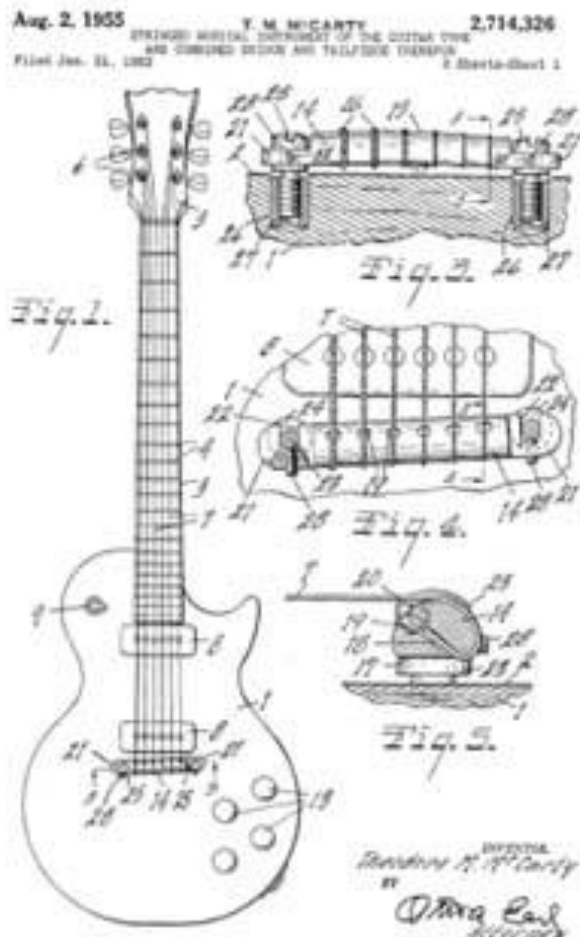


Publicity
Rights



Sound
Recording
Copyright
and
public
performance
rights

Patents



The “Les Paul” redesigned with tailpiece and bridge as separate components and thus was born the ABR-1 bridge and ‘stop tailpiece’ design that is still the standard on all Gibson solid-body electric guitars to this day. (Pat. No. 2,714,326).

Patents

- A patent for an invention is the grant of a property right to the inventor providing the right to exclude others from making, using, offering for sale, selling or importing the invention
- The social purpose is to provide protection for the results of investment in the development of new technology, thus giving the incentive and means to finance research and development activities
- A functioning intellectual property regime should also facilitate the transfer of technology in the form of foreign direct investment, joint ventures and licensing
- The protection is usually given for a finite term (typically 20 years in the case of patents)

Attributes of Utility Patents

- **Subject matter of patents**
 - Inventions can include machines, chemicals, genetic inventions, compositions of matter, processes and articles of manufacture of various kinds
 - Patent classes:
 - Processes and Methods
 - Machines
 - Articles of Manufacture
 - Compositions of Matter
 - Asexually reproducing plants are covered by plant patents
- **Keys to patentability** – New, Useful and Nonobvious
 - An invention must be **new**: application filed within one year of disclosure anywhere in the world
 - An invention must be **useful**: it must work (be reduced to practice as the inventor predicts)
 - An invention must be **nonobvious**: a skilled person must not consider the invention an obvious next step



Employee's leaving with patents

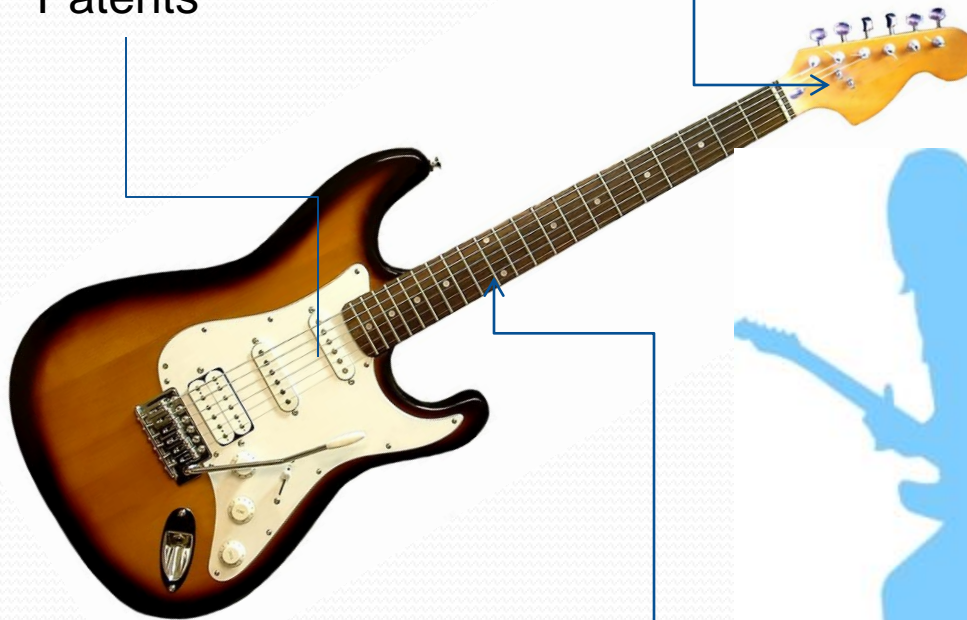
- An employee leaving a company may have an obligation to leave the invention with the employer
 - **Pre-invention agreements** (by contract or employment handbook) will specify what invention rights belong to the employer
 - **Employee hired to invent** are presumed to owe a duty to give all inventions to the employer, including those begun but not completed while an employee
 - **Senior officials** have an additional **fiduciary duty of loyalty** to the employer not to develop any invention for personal benefit when the benefit could be given to the employer
 - **Shop Rights** – even if none of the situations apply, where the employer has financed an employee's invention by providing wages, materials, tools or a work place, the employer is entitled to a royalty-free, non-exclusive and non-assignable license to use the invention. The employee owns the patent, but any sale will be subject to the shop rights interest in the former employer
- **Independent contractors** are not employees, so generally only express agreements will assign the invention to the contracting party
- **Other IP rights have similar restrictions**, including copyright work for hire, trade secrets, and nondisclosure restrictions

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Intellectual property of the box - Trademark

- A trademark is a word, name, symbol, or device that is used in trade with goods to indicate the source of the goods and to distinguish them from the goods of others
 - the goods or services of one provider from those of others - enabling consumers to know the source or origin of goods and services
 - Trademark protection of such distinctive signs aims to stimulate and ensure fair competition and to protect consumers
 - Assisting consumers to make informed choices between various goods and services
 - Trademark owners have a duty to take reasonable steps to prevent infringement on their marks



Marks or Signs Available for Registration

- Words, letters, numerals, drawings, pictures, shapes, colors, labels, or any combination of these, can be used as a mark
 - Some countries permit the sound or smell to be registered marks
- Music examples
 - Band names, artist names, and logos
 - Equipment names
 - Tours and concert events
 - Musical hooks associated with goods or services
 - Songs cannot be trademarks for that song
- Marks that cannot be registered:
 - Marks that are identical or similar to earlier marks for identical or similar goods or services; or marks that are identical or similar to well-known marks
 - Scandalous or offensive marks
- Additional issues
 - Marks that describe value, quantity, quality, or intended purpose of the goods or services
 - Marks that are deceptive
 - Marks that are contrary to public order or morality
 - Marks that consist of armorial bearings, flags and other emblems or official signs of States or international intergovernmental organizations

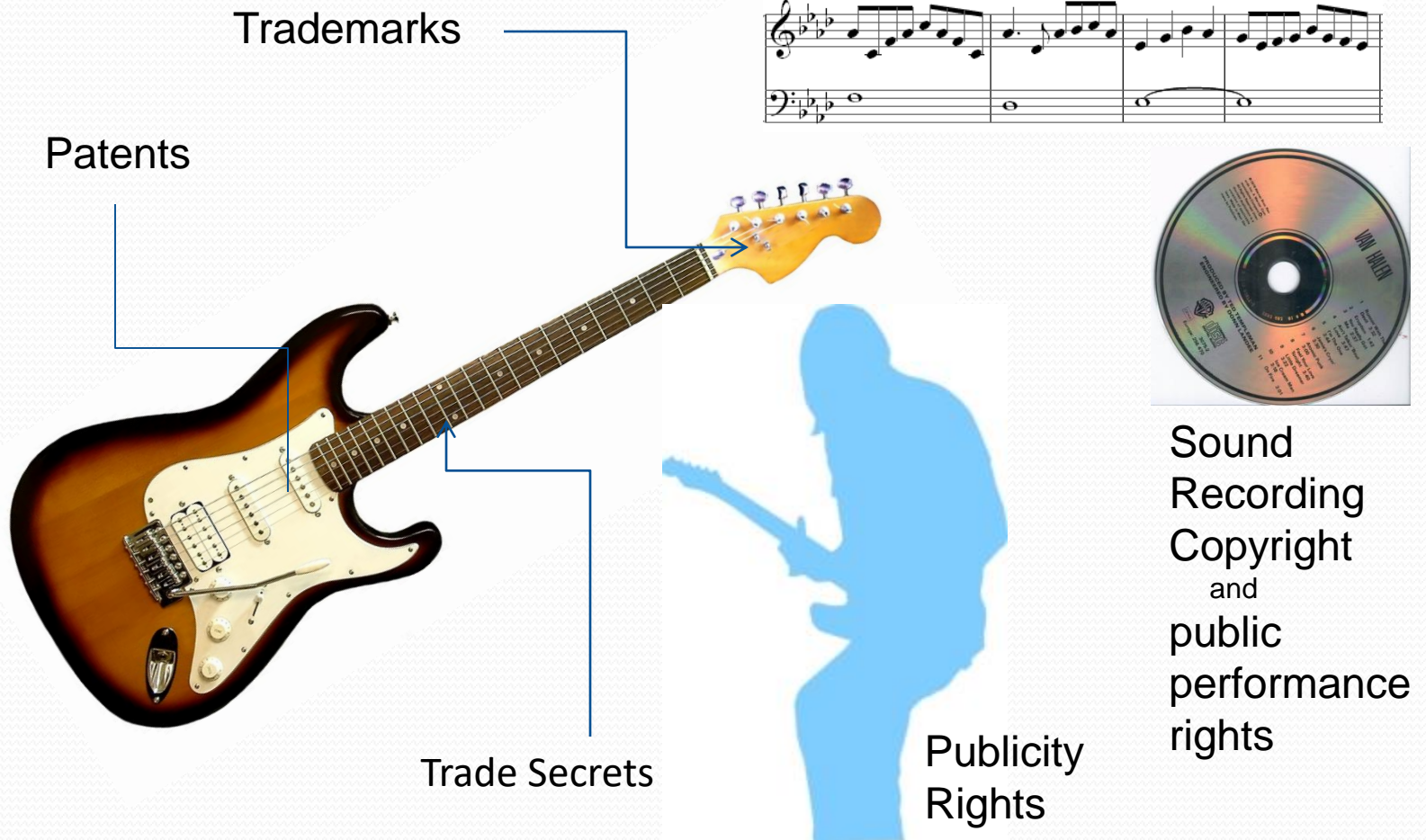
Trademarks as Property

- Historically, trademarks only protected the public from confusion regarding the source of goods
- Modern trademark laws have increased protections
 - **Dilution:** watering down the mark when similar marks are used by third parties for unrelated products
 - **Disparagement or tarnishment:** use of the trademark by third parties for offensive but unrelated products even when there is little risk the public would be confused
 - These laws protect the integrity of the trademark rather than the likelihood of confusion of the consumer
- Trademarks, therefore, have both property and consumer protection aspects



Categories of Intellectual Property Rights

Copyright



Copyright – Protection of Authors & Artists

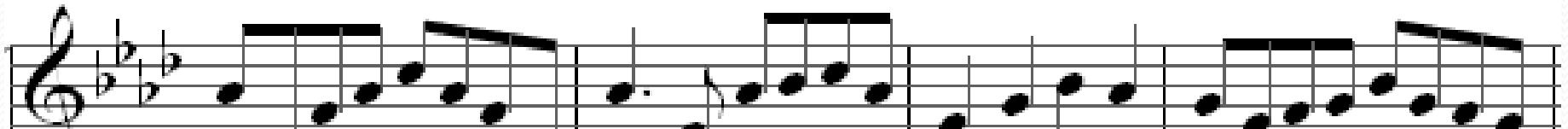
§102 Copyright Subject Matter

(a) Copyright protection subsists ... in original works of authorship fixed in any tangible medium of expression, now known or later developed, Works of authorship include the following categories:

- Literary works;
- Musical works, including any accompanying words;
- Dramatic works, including any accompanying music;
- Pantomimes and choreographic works;
- Pictorial, graphic, and sculptural works;
- Motion pictures and other audiovisual works;
- Sound recordings; and
- Architectural works. (Added 1990)

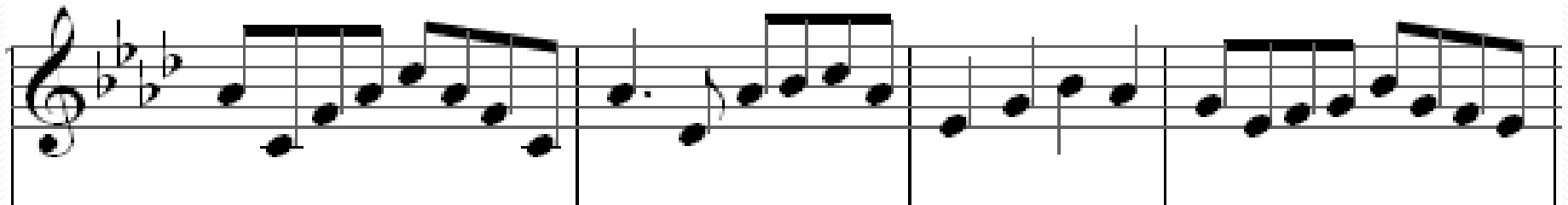
Section 106 Exclusive Rights Of Copyright Ownership

- Reproduction
- Adaptation (Derivative Works)
- Distribution (by sale or other transfer of ownership, or by rental, lease, or lending)
- Performance
- Public Display
- In the case of sound recordings, to perform the copyrighted work publicly by means of a digital audio transmission.
- § 106A, added in 1990 to delineate rights in works of visual art.



Copyright – Protection of Authors & Artists

- Copyright protects the expression for authors of “original works of authorship” including literary, dramatic, musical, artistic, and certain other intellectual works
 - The rights of authors of literary and artistic works (books and other writings, musical compositions, paintings, sculpture, computer programs and films) are protected by copyright, for a period of 70 years after the death of the author (or 95 years for corp. author)
 - The main social purpose of protection of copyright and related rights is to encourage and reward creative work
- Protection begins with the fixation of the work
- Expression of ideas, not ideas processes or inventions covered

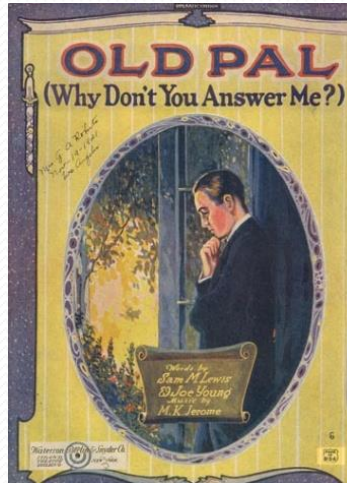


The range of copyright interests

- **Composition**

Composer &
Lyricist

Usually controlled
by Publishers



- **Public Performance**

Licensed to venue

By Performing Rights Society

- Rights in composition, not sound recording



- **Sync**

Synchronization to AV
Also held by Publisher

- **Sound Recording**

Master Recording
Usually held by
“Record Label”

No derivative rights



Phonorecord

Copy of embodied
sound recording



Defenses to infringement – fair use

Purpose – “[Copying] for purposes such as criticism, comment, news reporting, teaching (including multiple copies for classroom use), scholarship, or research, is not an infringement of copyright”

1. Four Prongs

- a. **Purpose & Character of use, including whether commercial nature or nonprofit educational use;**
- b. **Nature of copyrighted work;**
- c. **Amount and substantiality; and**
- d. **Effect on market**

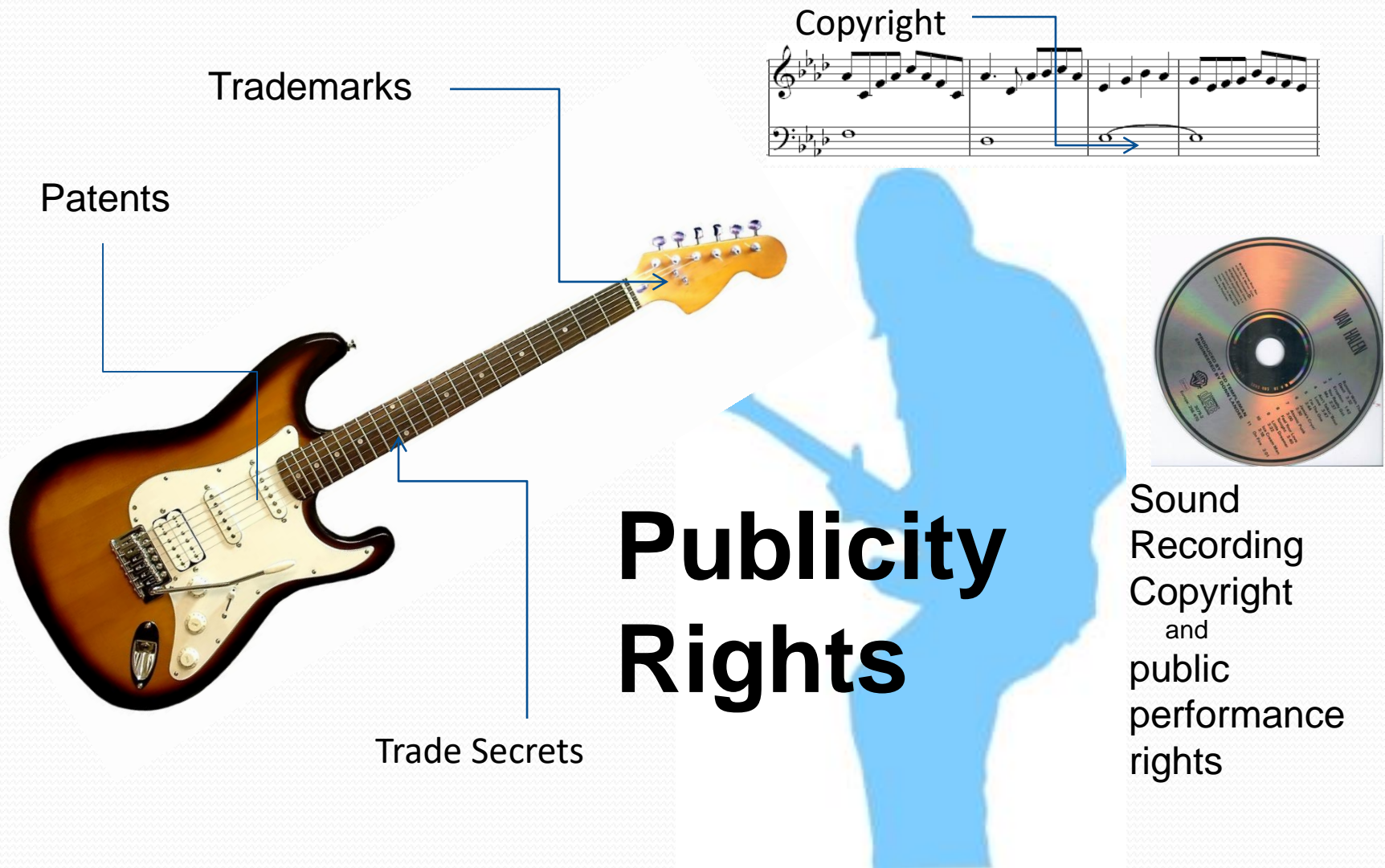
2. *Sony Corp. v. Universal City Studios*, 464 U.S. 417 (1984)

How to use the prongs: Balancing Test

Campbell v. Acuff-Rose Music, 510 U.S. 569 (1994)

- **TRANSFORMATIVE USE:** Whether the new work merely "supersede[s] the objects" of the original creation, ("supplanting" the original), or instead adds something new, with a further purpose or different character, altering the first with new expression, meaning, or message;
- It asks, in other words, whether and to what extent the new work is "transformative."
- The more transformative the new work, the less will be the significance of other factors, like commercialism, that may weigh against a finding of fair use.

Categories of Intellectual Property Rights



Publicity Rights – Celebrity, Personality or Image

- Celebrity sponsorship ranks as a popular powerful marketing tool
 - Many sports stars and others can expect a greater, and possibly longer-lasting, income from endorsement activities than from the activities that made them famous.
 - Some countries protect the property interests in the person's name or likeness, while others protect the public from false endorsements
- Where publicity is protected, goods with the name or picture of the celebrity can only be sold by or under license from the celebrity



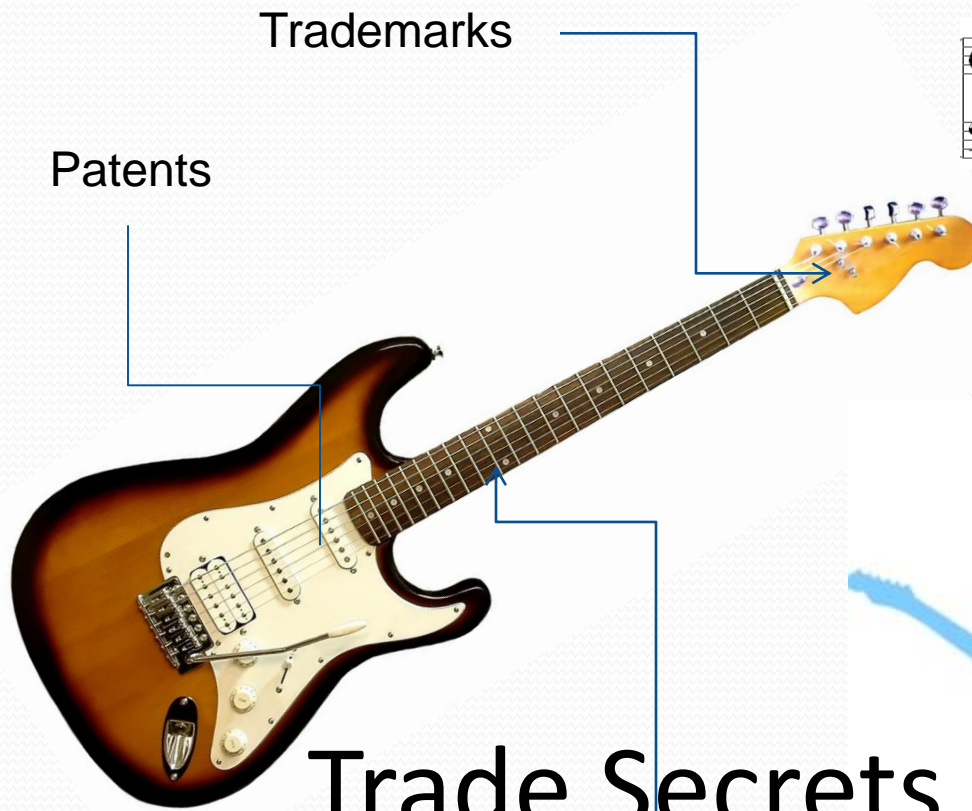
Publicity Rights – Cause of Action



Significant confusion exists in the balance of publicity rights and free expression – with most issues involving the competing rights to license or the right to sell memorabilia

- Name, voice, likeness, portrait, signature, etc.
- “A person... that uses for advertising purposes, or for the purposes of trade, the name, portrait or picture of any living person without having first obtained the written consent of such person... is guilty of a misdemeanor.” ... “[One so injured may] prevent and restrain the use thereof; and may also sue and recover damages for any injuries sustained by reason” NY Civ. Rights Code §§ 50, 51
- Elements for the common law claim
Eastwood v. Super. Ct., 149 Cal. App. 3d 409, 417 (1983)
 - (1) used plaintiff’s identity;
 - (2) for defendant’s commercial advantage;
 - (3) lack of consent; and
 - (4) resulting injury [injury not typically required of statutes]

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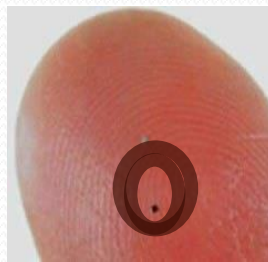
Publicity
Rights



Trade Secrets



- A trade secret is confidential business information which provides an enterprise a competitive edge and which is reasonably protected from public disclosure
 - These include sales methods, distribution methods, consumer profiles, advertising strategies, lists of suppliers and clients, and manufacturing processes
- Trade secrets encompass manufacturing or industrial secrets and commercial secrets. The unauthorized use of such information by persons other than the holder is regarded as an unfair practice and a violation of the trade secret
 - Unfair practices in respect to secret information include industrial or commercial espionage, breach of contract and breach of confidence
- A trade secret may last forever if the information is never publicly disclosed



Trade Secret Rules

WHAT IS A TRADE SECRET?



Commercially
valuable
information



Creates a
competitive
advantage

Subject to
secrecy
protections



Not readily known,
identifiable, or
ascertainable



Restatement of (Third) of Unfair Competition, § 39 DEFINITION OF TRADE SECRET

A trade secret is any information that can be used in the operation of a business or other enterprise and that is sufficiently valuable and secret to afford an actual or potential economic advantage over others.

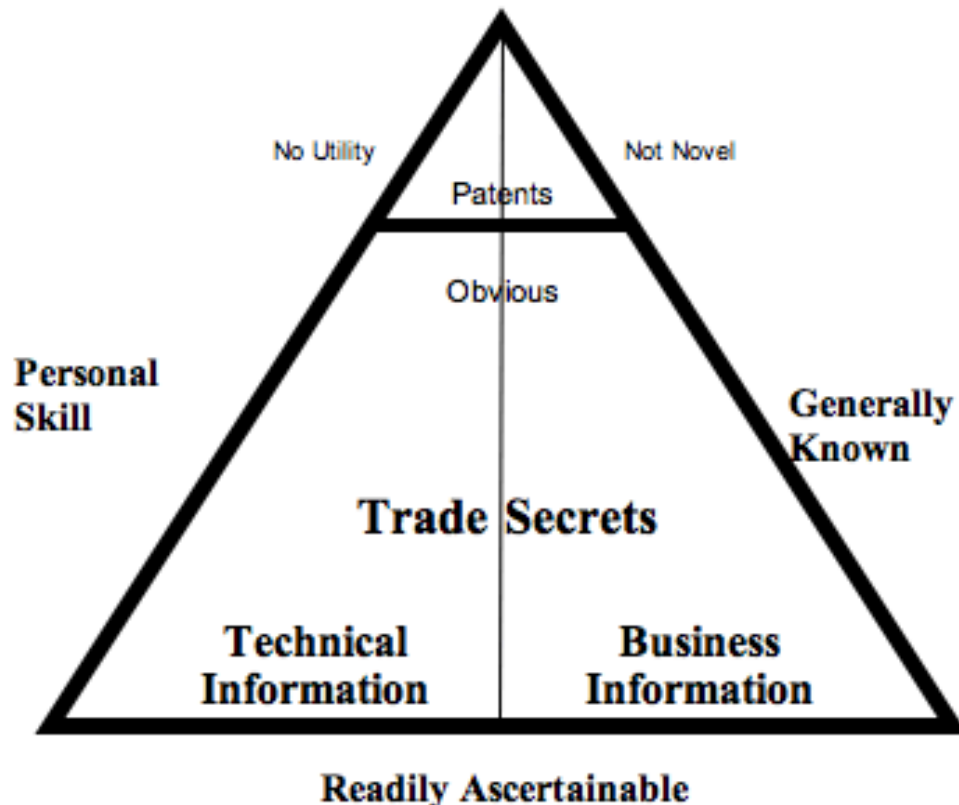
Restatement of Torts 757 and 758 (1939)
– Factors (p. 45):

- (1) the extent to which the information is known outside of the business;
- (2) the extent to which it is known by employees and others involved in the business;
- (3) the extent of measures taken to guard the secrecy of the information;
- (4) the value of the information to the business and to its competitors;
- (5) the amount of effort or money expended by the business in developing the information;
- (6) the ease or difficulty with which the information could be properly acquired or duplicated by others.

Elements of the Claim

- Subject matter must qualify as a *trade secret*
- Holder must have taken *reasonable precautions to prevent disclosure*
- Secret information must have been *acquired wrongfully*
 - *Skullduggery, theft, deception, etc*
- **Trade secrets only work if the information is secret**
 - No protection against independent development of the same idea or invention.
 - Reverse engineering generally allowed provided item is obtained legally and not in violation of contract or end-user license agreement
- Found in 45 states, DC, Puerto Rico and the USVI (not MA, NJ, NY, NC and TX)

Relation of Trade Secrets to Patents



Source – Prof. Karl Jorda

- Trade secrets may be inventions the owner chose to protect through secrecy
 - Gives perpetual life (so long as not discovered)
 - Reduces cost
- Trade secrets include many innovations that would not rise to patent protections
 - Insufficient novelty
 - Not a great enough step from “prior art” or existing knowledge
 - Knowledge of information too readily available
- Both are invalid if the information is generally known

Trade Secrets and Product Data

- Trade Secrets – Formula; Process; new releases, tour information, pricing, etc.
- UPC – Uniform Product Code
 - One of the earliest digital product tracking devices
- SoundScan – nielsen tracking product
 - Replaced “A & R”
 - Local hits will trigger interest of labels
- UPC Being replaced with RFID chips



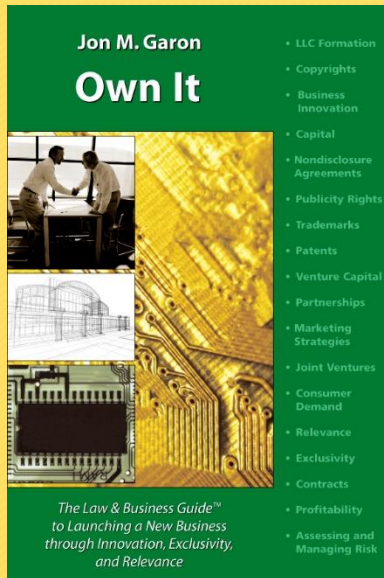
Data Protection & Consumer Privacy

- Not exactly part of intellectual property
 - Data protection is often part of the trade secret policy
- Data trends, data mining, EDI [*Electronic Data Interchange* - the structured transmission of data between organizations by electronic means]
- Regulated Data – Personally Identifiable Information
 - Name, address, social security number, credit card and financial numbers
 - These bits of information both create risk of mis-use (identity theft) and invasion of privacy
- Corporate (and government) use of information has tremendous economic value

The IP Framework for Entrepreneurship

- **Relevance:** Firms are successful only to the extent they provide what consumers want/need
- **Scarcity:** The less available a good or service, the higher the price it commands
- **Exclusivity:** Exclusive items (land, jewels, patents, etc.) can be made scarce by their owners
- **Distribution:** Existing business models make supply chains a poor source of scarcity
- **Affinity & Branding:** A firm should build relationships with clients to expand beyond the core exclusivity so as to increase markets, grow market share, and build resilience from competition
- **To Succeed,** the client must (i) identify an unmet need; (ii) provide a unique/exclusive solution; (iii) establish the firm as the preferred (or only) solution to the need; (iv) build affinity for client retention

Objective and Subjective Relevance



- **Objective Relevance**
 - Objectively relevant items are items that fulfill basic personal or business needs
 - Personal - air, water, food, shelter and clothing
 - Manufacturing – electricity, phones, labor, materials
- **Subjective or Social Relevance**
 - Popular luxuries – such as tickets to a “hot” music concert or playoff event in sports- are successful because they are perceived as highly relevant
 - Top software games, extra features on cell phones
 - Psychology suggests some social relevance is an objective need
- **Market behavior towards relevance not based on any hierarchy of needs**

Scarcity and Pricing

- Scarcity – the availability of items
 - Value of equally relevant items will vary with availability
 - The less available, the more valuable
 - Memory chips, gold and platinum used in computer chips
 - Front row seats to concerts and private screenings
- Price minimums based on costs
 - Development – the cost to design and bring to market
 - Unit cost – the manufacturing, packaging and marketing
- Price maximums balance:
 - Relevance and scarcity with
 - Availability of alternatives, ability to forego product, and
 - Ability to pay (or pass on cost)

Exclusivity – Controlled Scarcity

- Scarcity – limitations on availability of a resource
- Sources of scarcity
 - Natural scarcity: land, gold, desalinated water, etc.
 - Legal scarcity: Enforcement of legal exclusive rights
 - **Property** – titles, deeds, leases, etc.
 - **Employment** – typical obligation to provide one's service to only one employer
 - **Government** monopolies and contracts
 - **Government** jurisdiction – criminal punishment, regulation, etc.
 - IP – patents, copyrights, trademarks, trade secrets and publicity rights (marketable privacy rights)

Exclusivity as result of controlled scarcity

- Sources of exclusivity
 - Natural scarcity: land, gold, desalinated water, etc.
- Legal scarcity: Enforcement of legal exclusive rights
 - **Property** – titles, deeds, leases, etc.
 - **Employment** – typical obligation to provide one's service to only one employer; nondisclosure agreements; non-compete agreements
 - **Government** monopolies and contracts
 - **Government** jurisdiction – IP, criminal punishment, regulation, etc.
- IP – patents, copyrights, trademarks, trade secrets and publicity rights (marketable privacy rights)
- Scarcity – limitations on availability of a resource
 - Exclusivity creates an artificial scarcity that can protect price levels
 - Scarcity enhances subjective relevance: assumption of elite value

Intellectual property rights – creatable exclusivity

- **Intellectual property rights** are the rights given to persons over the creations of their minds
 - They usually give the creator an exclusive right over the use of his/her creation
 - Generally limited to a certain period of time (varies by right)
- Traditional intellectual property rights are customarily divided into two main areas:
 - **Copyright** and rights related to copyright
 - **Industrial property**
 - Patents
 - Trademarks
 - Trade secrets
 - **Publicity Rights** – some jurisdictions a property right; others a tort
 - (aka identity rights or protection from passing off)
 - Value from endorsements and advertising

Supply Chain Exclusivity Nearly Gone

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- **Information once “glue” holding the supply chains together**
 - Information provides top-down control
 - Information treated as scarce resource to be rationed and controlled
- **Richness and Reach** – Inverse relationship between quality and quantity of content
 - Adds have wide reach but little detail
 - In home visits have great detail but small audience
- **Source disintermediation: Socially-edited credibility**
 - Encyclopaedia Britannica fell victim to CD-Rom physically cumbersome World Book supplements
 - Brand legitimacy – “trusted source” model eroding
 - For every page viewed on Britannica.com, 184 pages are viewed on Wikipedia (3.8 billion to 21 million monthly views)
 - High volume reader feedback corrects errors

IP for Market Growth & Commercial Success

- Build *exclusivity* through IP
 - Patents protect new inventions, processes, etc.
 - Trade Secret and copyright protect software
 - Employment practices
 - Non-disclosure agreements
 - Development agreements and software licenses
 - Negotiated and consumer license agreements
 - Encryption and digital rights management
- Maximize commercialization through objective and subjective *relevance*
 - Trademarks and branding
 - Publicity Rights
 - Contracts and cross-licensing

The Call for Innovation

- **Entrepreneurs innovate**

- A start-up must justify its existence
- Matching target on service and price will guarantee failure, a tie goes to the established
- Being good enough isn't – your client's products or service must be a sustainable improvement in the customer proposition

- **Patent Principles for Entrepreneurship**

- **New** – no one established has this particular niche
- **Useful** - the more useful, the more relevant and higher the demand
- **Nonobvious** - the less obvious, the greater the opportunity for capturing those exclusive attributes of the business – creating the ability to *Own It*

- **Exclusivity, Scarcity, & Relevance**

- **Exclusivity** – does the client have separation from the competition
- **Relevance** – will customers want and pay for the client's product

- **Organize to achieve ownership of the firm's market**

- Focus all legal and business decisions around these goals instead of the personal or business objective
- Encourage all start-up decisions to be justified under these principles (financing, board membership, employment agreements)

Formation Considerations

- Initial Considerations
- State of Formation
- Name of the LLC
- Pre-Formation Logistics
 - Articles of Organization
 - Filing the Articles of Organization
 - Professional Limited Liability Company
 - Operating Agreement
- Control Provisions
- Leaving attorney provisions
 - With cause
 - Without cause
- Compensation Provisions
- Considerations Regarding Ownership Interests
- Initial Acts of the Members or Managers
- Post-Formation Matters
 - Preparing the Minute Book and Ledger
 - Applying for a Taxpayer Identification Number
 - Obtaining Licenses and Permits
 - Tax Considerations
 - Employee Incentive Considerations
 - Capital Raising Considerations
 - Further Assistance

LLC Provisions

- Formation
- Management by members or managers
- Name
- Contributions and distributions
- Membership
- Mergers and conversions
- Member Services
- Non-Firm Membership Activities
- Leaving Member
- Addition of a Member
- Ending the Membership
- Distribution of Assets After Termination
- Dissolution
- Determination of Net Worth
- Morals Clause?
- Other agreement clauses:
 - Indemnification
 - Representations and warranties
 - Notice
 - Arbitration and Dispute Resolution

Key Documents and Financials

- Articles of Organization
- Member Agreement
- Financial Plans
 - Initial Balance Sheet
 - Estimated Overhead and Draw
 - Breakeven Analysis
 - Three-Year Operating budget
 - Pro forma income and expense statements
- Business Plan
 - Practice Description
 - Marketing Plan
 - Operating Procedures
 - Staffing Needs
- Key Financial Reports
 - Billable time – actual v. budgeted
 - Monthly bills/work-in-progress
 - Effective hourly rate
 - Realization rate

Ownership Interests

- Purchase and sale of interests important for attorney movement
 - **Right of first refusal.** A right of first refusal requires a member who has received an offer from a third party to first offer their interest to the other members on substantially similar terms.
 - **Right of first offer.** Like the right of first refusal, a right of first offer requires a member who wishes to sell their interest to offer their interest to the other members first. It is a contractual obligation to offer the equity stake before even receiving a third-party offer but typically requires only good faith negotiations since there is no existing offer.
 - **Drag-along provision.** A drag-along provision gives a majority member wishing to sell to an unrelated third party all or a substantial percentage of its membership interests in the company the right to force the other members to also sell all or a portion of their membership interests to such third party.
 - **Tag-along or co-sale provision.** A tag-along or co-sale provision gives minority members the right to participate on a pro rata basis in any controlling member's sale of its membership interests to a third party.
 - **Pre-emptive rights.** Pre-emptive rights give the members the right to buy a pro rata portion based on their ownership interest of any future membership interest issuances the company makes.



Thank you

Questions?

– Jon M. Garon