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
Mitigate Risk

- Corporate Transparency (register owners by Dec. 31, 2024)
- GDPR / CCPA (website privacy policy)
- ADA-compliant website
- Copyrighted images on website and marketing materials
- Export regulations: sensitive defense technology controls
- Environmental, Social and Governance (ESG): resource shortage (water, electric, raw materials); harm to reputation, pandemic response
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
IP Overview

- **Patent**: protects the implementation of an idea for 20 years from filing
  - Design Patent: icons, type font, ornamental (non-functional) product features
  - Utility Patent: Device, machine, method, certain software

- **Trademark**: protects any word, name, symbol or logo that identifies your goods or services
  - Coke or Oreo

- **Copyright**: protects an expression fixed in a tangible medium (not the underlying idea)
  - Video, website, picture, song, source code, book, manual

- **Trade Secret**: proprietary confidential information
  - Customer information, pricing, marketing plans
Design Patent Examples

Display Screen with Icon (D760281)

Display Panel of a Programmed Computer System with a GUI (D653671)
Design Patent Examples

Display Screen With Icon (D760797)

Google (D620950)
Design Patent Examples

Watch
(LVMH: D981253)

Shoe
(Givenchy: D981086)
Design Patent Examples

TELEPHONE HOLDER WITH LANYARD (LVMH: D981391)

Handle for Kitchen Knives (LVMH: D981189)
Utility Patents – What Can I Patent?

• **Part 1: Subject Matter:** does it qualify as patentable subject matter?
  - any new and useful process (i.e. method), machine, manufacture, or composition of matter, or any new and useful improvement thereof
  - Systems / devices
  - Software / website / phone app “might” be patentable
  - Method of making, method of using
  - Ornamental design (non-functional)

• **What cannot be patented?**
  - Abstract idea (certain software)
  - Laws of nature / discoveries
Utility Patent Standard

- **Part 2: Is it patentable over what others have done?**
  - **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?
    - Is it worth the time and expense?
Utility Patent: 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

• Advantages
  – Rights: exclude others from practicing your invention
  – 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

• 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; or expedite for added fee
  – Costs: substantial investment of time and capital
  – Application (proprietary information) may be published
Patent Strategy – Do Not Disclose **

**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**: Venture Competition or 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
  – 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
Intellectual Property - Trademarks

- **Trademarks**: identifies the source of goods/services
  - Distinguish goods (™) / services (SM) 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 based on an intent-to-use, 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
  - **Trade Dress**: for product configuration
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
  – Do not describe the goods or services
  – EXXON® for gasoline
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]
Copyright Infringement

• Beware of Inadvertent Infringement !!
  – Don’t use other people’s photos or images; just because something is on Google Images does not mean that it can be put on your websites or even posted on your Instagram, Tumblr, or Facebook pages
  – Don’t use HTML or other code from other developers
  – Obtain a license for pictures and code

• Damages can be significant
• Linking to third-party webpages should be OK
Trade Secret Protection

• Trade secret protection
  – Unlikely to be disclosed during normal business
  – Difficult to reverse-engineer
  – Take affirmative steps to protect the information as a trade secret
    • (e.g., password protect; limit access; mark as confidential, proprietary, and owner name; avoid entering in chatGPT; independent development of new products without trade secret, licensed know-how or copyrighted materials (cleanroom))
  – Employment agreements, consulting agreements
  – Risk of competitor developing independently and patenting
  – Risk of theft
• 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

• Google Patents
  – Search patents: https://patents.google.com/

• PACER – search litigation
  – http://pacer.uspci.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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