



COUNSEL TO GREAT COMPANIES

So You Want To Be A Millionaire? Creating Value With IP

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Agenda

- IP 101
- Getting Your IP Into the Company
- Beginning Your Commercial Journey
- Ways to Commercialize

IP 101 – Copyright

- **What is it?**

- A work of authorship
- Original
 - Independently created and reflecting at least some creativity
- Fixed in a tangible medium of expression
 - Can be print, electronic, or any other medium

- **What works are protected?**

- Literary works (books, software, websites)
- Dramatic, musical and audiovisual works (plays, sound recordings, movies)
- Pictorial, graphical, sculptural works

IP 101 – Copyright

- **Copyright owner can exclude others from:**
 - reproducing (a/k/a “copying”), publicly performing, publicly displaying, distributing, or preparing derivative works of
 - the protected ‘work’
- **What is not protected?**
 - Ideas (that’s patent), titles, short phrases
 - Facts and functional works (telephone white pages, simple forms)
- **Limitations on protection**
 - Fair use and first sale
 - A note on software and “first sale” → “this product is licensed, not sold”

IP 101 – Copyright

- **Who owns a copyright?**
 - Initial owner – the individual who created the work or the employer, if within the “work for hire” doctrine.
 - Note on “work for hire” → doctrine does not include “literary works,” i.e., software, so need assignment language. Do not include WFH language in independent contractor agreements in certain states (e.g., CA)
 - Independent contractor – include assignment language. Assignments **must** be in writing!
- **How long does protection last?**
 - Non-WFH: life of author + 70 years
 - WFH: earlier of 95 years from first publication or 120 years from creation

IP 101 – Copyright

- **Registration**
 - Not required. Copyright protection automatic upon fixation
 - **But...**required if you want to bring an infringement lawsuit. If registered before infringement, you get statutory damages, attorneys' fees, and presumption of valid copyright.
 - In particular, statutory damages are important → otherwise, damages can be difficult to predict and lawsuits can be prohibitively expensive
 - ...**And** you are not required to submit a complete copy of your code
- **Notice**
 - Notice not required, but recommended → provides evidence of ownership if there's an infringement case. Need © or word "copyright," name of owner, year of first publication.

IP 101 – Patent

- **What is it?**

- A limited monopoly over an invention that is disclosed in an application
- Design patents – novel, non-obvious, ornamental (protects the way something looks). E.g., beverage container, furniture design.
- Utility patent – novel, non-obvious, useful (protects the way something is used). E.g., a process or machine. Far more common.
- You can have different patents based on different uses – e.g., Rogaine was originally an antihypertensive medication

- **What is protected?**

- Processes, machines, compositions of matter, methods, etc.

IP 101 – Patent

- **Who owns a patent?**
 - The inventor – the individual who invented the work
 - Employees or independent contractors – include assignment language. Assignments **must** be in writing!
- **How long does protection last?**
 - Provisional patent – one year
 - Utility patent – 20 years from filing date
 - Design patent – 14 years from issue date

IP 101 – Patent

- **Filing**

- **When to file?** Within one year from public disclosure, sale, offer for sale, description in printed publication or within one year from provisional patent application.
- **Process** → talk to your patent lawyer! Generally, you'll run a patent search, you may conduct a prior art analysis (can be costly, \$20-\$30K and up), and then work with patent lawyer to prepare application.

- **Marking**

- Patent pending
- Covered by U.S. Patent No. _____
- Placed on product or packaging when product placement isn't possible
- Effects your ability to collect damages – no damages until actual notice if it isn't properly marked

IP 101 – Trademark

- **What is it?**

- Identifies and distinguishes the source of goods or services of one party from those of others
- Word
- Name
- Symbol
- Design
- Slogan
- ...Even sounds and scents

IP 101 – Trademark

- **Who owns a trademark?**
 - The person or company that controls the nature / quality of the products or services offered under the mark. Usually means the party using the mark.
- **How long does protection last?**
 - As long as you're using it!
- **Registration**
 - Not required, but highly recommended.
 - If you register → nationwide constructive notice, presumption of validity in court, federal court enforcement.

IP 101 – Trade Secret

- **What is a trade secret?**

- Information that (a) has incremental value if kept secret and (b) the owner takes reasonable efforts to keep secret
- Commercially valuable → can be technical (formulas, manufacturing processes, etc.) or business-related (customer lists)
- Efforts to keep secret → confidentiality provisions (NDAs) and licensing
 - Lasts forever, provided (a) & (b) remain true
 - Failure to meet (b) threatens trade secret status against all, not just the one person who gains info without adequate protection

IP 101 – Trademark

- **Who owns a trade secret?**
 - The developer or purchaser
- **How long does protection last?**
 - As long as the information retains commercial value and you are taking reasonable steps to protect it
 - Trade secret owner can exclude information recipients from using or disclosing secret info
- **Registration**
 - Not applicable, but labeling is advised, e.g., marking documents “Confidential – Trade Secret Material”

Getting Your IP Into Your Company

- **Assignment agreements** → Key method by which IP ownership transfers from the creator to the company
 - Agreement between the individual (e.g., founder, employee, independent contractor) with provisions assigning ownership of IP from individual to the company.
 - Critical because they cover IP created pre-incorporation (if a founder) and IP that would not fall under “work for hire” doctrine (e.g., inventions, independent contractor work)
 - Ensure everyone, including founders, signs one. If someone does not sign one, employer will have to obtain a “confirmatory” assignment from the individual and, if in CA, will have to pay fees to the individual, as continued employment does not equal contractual consideration in CA.
- **University issues** → If you are spun out from a university, you will likely be subject to university’s IP policies. Check with your lawyer!
 - Likely the most the company can get is an exclusive license from university (argument is usually that they have to assert this right under the Bayh-Dole Act or else the federal government takes title if the research was performed using federal funding)
- **Beware joint ownership** → it sounds equitable, but it is a hassle and frowned upon by investors. Myriad IP-related issues, incl. licensing (neither party can prevent), standing to sue (must bring in co-owner), duty to account for profits

Beginning Your Commercial Journey

- **NDA**s → always enter into freestanding NDA or document that contains non-disclosure and non-use terms before discussing anything confidential.
 - Freestanding NDA has three key components → (1) definition of “Confidential Information”; non-use and non-disclosure obligations; and obligation to use reasonable efforts to maintain secrecy
 - Definition especially important - if you’re disclosing, broadly define “Confidential Information” and eliminate any marking / writing requirements. If you’re receiving, make the discloser mark confidential information in order to avoid being “tainted” by it.
- **Pilot Agreements** → good practice if you’re doing small-scale trials; can sometimes be used to bypass lengthy procurement process within large companies.
 - Just the basics, with very little risk shifting provisions. Key is to ensure rights are precise and confidentiality is robust.
 - Can even go with **MOU / LOI**, which is largely non-binding document.
- Ensure you have good **feedback** clauses – i.e., any suggestions are freely usable

Ways to Commercialize

- Documentation comes in many flavors – e.g., terms of use, terms of service, services agreement, access agreement – but the key component from an IP perspective is the **license** and related terms
- **What is a license?**
 - Contractual permission (and grant of intangible right) to “violate” a statutory IP right (i.e., a covenant not to enforce a right against the licensee)
 - make a device covered by a patent
 - copy (reproduce) a work covered by a copyright
 - display a trademark

Why License?

- **Monetize** your IP while retaining ownership
- Exercise **control**
 - Who can use?
 - What can they do?
 - Termination rights
- **Deviate** from background legal principles
 - Reverse engineering
 - UCC warranties
 - Consequential damages (lost profits)
- Allocate (and limit) **liability**
 - Indemnification and limitations of liability
 - Warranty disclaimers (see UCC warranties, above)

Elements of a License – Skeleton

- **Parties** and **grant**
- **Licensed rights** → what does the licensee get to do?
- Statements of **ownership**
- Applicable **restrictions** on licensee's use → what can the licensee not do?
- **Term** of the license and how the license is **terminated**
- **Fees** → how are they calculated? How / when are they paid?
- **Allocation of liability** → who is responsible if bad things happen? (Hint: it shouldn't be you!)
- **Miscellaneous** → e.g., governing law, assignability, other “boilerplate”

Elements of a License – Parties and Grant

- **Who** is *granting* and *receiving* the licensed rights?
- **Licensor** hereby grants to **Licensee**...
 - Grant must be present (“hereby”), not “agrees to grant,” or “will grant,” unless grant is for future, in which case include “further assurances” clause to ensure that licensor contractually obligated to grant present license in future.
- The **right to**...
 - Be specific about the rights being granted.
 - Examples → if you are licensing a copyrighted work, the right to **copy**; if you are granting a license under your patents, the right to **make** or **sell**; if you are licensing a trademark, the right to **display**; if you are licensing trade secrets, the right to **use** If you’re granting copyright rights, the right to **copy**, for example
- **Anything else?** E.g., territory restrictions, exclusivity, sublicensing.

Sample License Grants

- **Copyright:** Licensor hereby grants to Licensee a non-exclusive, worldwide, non-transferable, non-sublicensable license during the Term under Licensor's copyrights to reproduce, distribute, perform and display the [Software] for Licensee's internal business purposes.
- **Patent:** Licensor hereby grants to Licensee a non-exclusive, worldwide,, non-transferable, non-sublicensable license under Licensor's [X] patents to make, use, and sell [Licensed Products.]
- **Trademark:** Licensor grants Licensee a worldwide, non-exclusive, royalty-free, non-sublicensable, and non-transferable license to use the Licensed Marks during the Initial Term or any Renewal Term, solely in connection with the Licensed Activities.
- **Trade Secret:** Generally only licensed in patent context. Add know-how rights to patent license grant.

Elements of a License – Statement of Ownership

- Reservation of Rights. Except as expressly granted in this Agreement, no rights or licenses whatsoever, in or to any Intellectual Property, are granted by either Party hereunder, whether by implication, estoppel, exhaustion, or any other theory. All intellectual property rights not expressly granted in this Agreement are reserved by each Party.
- ***The Software is licensed, not sold...***
 - Frequently seen in software license agreements; avoids consequences of “first sale,” under which copyright holders give up right to control distribution of their works after first sale.
 - Language is one factor in three-part judicial test for whether copyrighted work is subject to “first sale,” along with restriction on transfer and notable use restrictions.

Elements of a License – Restrictions

- Typical restrictions will include prohibitions on:
- Reverse engineering
- Modifying, adapting, altering, creating derivative works
- Merging software with other software
- Combining software with open source software
- Removing, altering or obscuring notices

Elements of a License – Term and Termination

- Consider what the **term** of the license should be
 - Evaluation / beta testing? One year? Multi-year? Auto-renewal?
 - Other ancillary issues: price increases; survival provisions; whether license grant and agreement are coterminous; wind-down / transition periods
- Think through your **termination** rights
 - If licensor → will likely only be able to terminate after set period of time (e.g., after initial term) or on licensee's material breach (unlikely to happen / not reliable). Permit termination for convenience if fees are paid upfront and non-refundable.
 - If licensee → should ask for termination for convenience, but will likely be required to forfeit any amounts paid (see above). Consider transition assistance to new vendor, data migration (format and accessibility), secure data destruction.
 - Each party should retain right to terminate for breach, and may specify certain categories of breach that cannot be cured (e.g., misuse of the license)
- Survival clauses – restrictions, indemnification obligations, limitations of liability, etc.

Elements of a License – Fees

- **Software** → upfront (annual), monthly or quarterly subscription, per-transaction, or combination
- **Patent** → royalties payable on net sales of licensed products (products whose sale would infringe licensor's patent). Net sales usually invoiced price less customary deductions, credits, rebates, freight, etc.
- Selected issues:
 - **Invoicing** → when?
 - **Calculating fees** → if per-transaction, royalty-based, or MFN, auditing critical
 - **Revenue recognition** → you can't recognize revenue until there are no contingencies to payment. If you permit a refund (e.g., during warranty period), potential refund is "contingency," so you must wait out warranty period before recognizing revenue.

Elements of a License – Allocation of Liability – Warranties

- ***What is a warranty?*** Covenant (promise) that particular fact is true during certain period of time, either expressly in contract or impliedly under statute (UCC)

- ***What warranties most frequently appear in licenses?***

- Performance – typically time-bound (e.g., first 90 days, software will perform in accordance with documentation / specifications). Consider “sole remedies” – licensee cannot terminate
- Non-infringement – typically continuing during agreement. Note different risk profile between non-infringement warranties offered by (a) copyright or trade secret licensors and (b) patent or TM licensors (TM less so, but based on geographic use). Can apply “knowledge qualifiers”

- ***How can I disclaim warranties?***

- Be conspicuous (ALL CAPS HELPS, but not required. **Can use bold.**)
- Be sure to disclaim three implied UCC warranties – merchantability, fitness for particular purpose, and title / non-infringement (unless offering non-infringement warranty above)

Elements of a License – Allocation of Liability – Indemnification

- ***What is indemnification?*** Promise to compensate / reimburse for a loss. Similar to insurance. In licensing context, usually applies to third party claims only.

- ***What indemnities most frequently appear in licenses?***

- Licensor → third-party infringement claims (often reduced to extent software combined with other software, licensee misuse, modifications made to software)
- Licensee → breach of agreement, negligence, licensee-provided data

- ***“Defend, indemnify, and hold harmless”*** – nuances abound, but essentially requires indemnifying party to step in, defend suit against indemnified party, and pay damage awards and fees

- Also consider procedure – indemnitor should demand prompt notice of claim, sole defense and settlement latitude, reasonable cooperation from indemnitee. Indemnitee may participate at own cost.

Elements of a License – Allocation of Liability – Limitation of Liability

- Typical LoL is two-headed monster: (i) limitation on **“consequential” or “indirect” damages** and (ii) liability **cap**
 - Limitation on consequential / indirect damages: all damages that breaching party knew or should have known about, e.g., lost profits / loss of future business
 - Liability cap: cap total liability at fixed dollar amount; can be tied to fees paid or can be arbitrary number (less enforceable)
- Carve-outs frequent
 - Indemnification – if indemnification not carved out, then it’s usually meaningless (fees rarely high enough)
 - Breaches of confidentiality – often result in consequential damages

Elements of a License – Miscellaneous Provisions

- ***Governing Law and Venue***

- Start with the state of your primary business. Consider alternative dispute resolution, e.g., dispute escalation procedures in contract, mediation, and/or arbitration.

- ***Anti-Assignment***

- Potentially triggered by exit event, so especially important for start-up clients. Ideally agreement is freely assignable on notice. Avoid consent requirements.

- ***Entire Agreement***

- Ensures that written agreement takes precedence over any oral discussion or term sheets. Written contract “integrates” all prior and separate understandings.

- ***Severability***

- Avoids unenforceability of one provision voiding entire contract.

- ***Publicity***

- Licensor may want to identify licensee as customer in marketing / investor materials or online.

Questions?