

Legal Issues in Entrepreneurship

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Intellectual Property Law

Importance of IP to a Company

- Increasingly important as a business asset
- May constitute the most valuable asset in early stage tech companies

Why do Companies Care about IP?

- **Freedom to Operate**—Ensure that someone else’s IP will not prevent your company from carrying out its business objectives
- **Competitive Advantage**—Protect your company’s IP to acquire a competitive advantage in the marketplace by precluding others from using it



Common IP Mistakes Made By Entrepreneurs

- Failing to secure IP rights from founders by assignment or license
- Failing to address how jointly-owned patents are to be licensed and utilized in joint development situations
- Failing to file a U.S. patent application within one year of public disclosure or other statutory bar
- Failing to consider international patent protection prior to disclosure (no one year grace period)
- Failing to use nondisclosure agreements
- Failing to properly register trademarks



Ways to Protect IP

- **Patent**—Anything man-made that is “new,” “useful,” and “non-obvious”
 - E.g., new scientific instrument, chemical process, software coupled with operation on a computer
- **Trademark**—Any distinct word, name, symbol, or device used to identify a source of goods or services
 - E.g., company logo
- **Copyright**—Original work of authorship fixed in a tangible medium of expression
 - E.g., a novel, software, website content
- **Trade Secret**—Commercially valuable information not generally known or readily ascertainable, if reasonable efforts are used to keep secret
 - E.g., the Coca-Cola secret formula
- **Contracts**—Protect IP by entering into agreements
 - E.g., Non-Disclosure and Employment Agreements



Hershey's Kisses

Protected by Five Types of Intellectual Property Protection

- **Trademark** for its shape (#1,038,025) and the term Kisses® (#2,416,701)
- **Patent** for its method of reducing fat levels in cocoa used (#5,464,649)
- **Copyright** for commercial advertisements (PAu-697-741)
- **Trade secret** on its recipe for producing the milk chocolate candy
- **Contracts**, e.g., nondisclosure, employment, and supplier agreements



Patents—Rights & Duration

- A patent gives its holder the **right to exclude** others from making, using, offering to sell, or selling the patented invention in the U.S. or importing the invention into the U.S.
- A patent **does not** grant its owner the right to make, use, offer to sell, or sell the patented invention; as such, one can have a patent but not be able to use the patented invention if it would infringe on an existing patent
- Generally, U.S. patents last 20 years from the date the application is filed with USPTO



Patents

- An invention must fit into one of the following categories of subject matter in order to be patented:
 - Machine, manufacture, process, composition of matter, biological plant, ornamental design
- Anything man-made that is “new,” “useful,” and “non-obvious” may be patented.
 - **Useful**—The easiest test to meet
 - **Novel (New)**—The invention must not already be known by the public or in public use
 - **Non-obvious**—The invention must not be obvious in view of the prior art and the knowledge of a person having ordinary skill in the art



Patents—Obtaining Protection

- To secure a US patent, one must file a patent application with the USPTO
- A patent application must be filed within one year of any commercial use, offer for sale, or public disclosure of an invention in order to be patentable
 - There is no one year grace period in most foreign jurisdictions
- Before applying for a patent, consider the following:
 - The prosecution and enforcement of a patent can be very time consuming and expensive
 - Determine whether the life span of the invention and its value justifies a patent
 - A patent requires a disclosure of the invention
 - Determine whether disclosing the invention would provide competitors with an advantage, or if other forms of protection, such as a trade secret are preferable



Patents—Other Considerations

- **First to Invent v. First to File**
 - The US uses a First to Invent system, meaning that the first person to invent may be awarded a patent. Use laboratory notebooks and invention disclosure forms to document the date of the invention, *i.e.* the time of conception and the time of reduction to practice.
 - Most foreign jurisdictions use First to File systems, meaning that the first person to file may be awarded a patent.
- Use nondisclosure agreements to prevent public disclosure
- A patent application may only be filed by an individual in the US. Make sure that you have agreements in place to assign ownership of any patent applications or patents to a company



Patents—U.S. Provisional Patent Applications

- A provisional patent application (“PPA”) can temporarily delay the need to file a utility patent application
 - E.g., an article containing an enabling disclosure of the invention will be published in a scientific journal
- Must file a regular application within one year of the provisional filing date or lose the filing date and the ability to obtain a patent if a public disclosure made or other bar occurs
- Does not count against the 20 year term
- A PPA is less formal than a utility patent application, but you need to ensure that what is disclosed in the PPA is sufficiently detailed so it will support a later utility application



Patents—Public Notice

- “Pat. Pending” may be applied to goods for which a PPA or utility patent application has been filed and which is in prosecution
- “U.S. Pat. No. #####” may be applied to goods once a patent has been issued
- Marking increases the likelihood of obtaining damages should a patent be infringed
- False marking may result in liability for statutory damages (\$500.00 for each falsely marked item)

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Patents—Infringement

- A patent claim is infringed when every claim limitation in the patent claim is found, literally or equivalently, in the accused device or method
 - Example:
 - A claim from Patent 1 claims a method comprising (a) scanning a barcode and (b) placing an item in a plastic bag.
 - A claim from Patent 2 claims a method comprising (a) scanning a barcode, (b) placing an item in a plastic bag, and (c) carrying the plastic bag outside.
 - The claim from Patent 2 contains every claim limitation found in the claim from Patent 1, and therefore infringes Patent 1, even though the claim from Patent 2 contains additional limitations.

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Trademarks—Definition

- Any distinct word, name, symbol, or device used to identify a source of goods or services
 - A mark is **distinctive** if it is:
 - **Fanciful**—Made-up term, e.g., KODAK for cameras
 - **Arbitrary**—Term that has no connection to the product with which it is associated, e.g., APPLE for computers
 - **Suggestive**—Term that suggests a connection to the product with which it is associated, e.g., MICROSOFT for computer software
 - **Descriptive + secondary meaning**—Term that describes the product with which it is associated and that has become associated with the product in the minds of the consuming public, e.g., PARK N FLY for airport parking lots
 - A mark is **not distinctive** if it is **generic**. A mark is generic if consumers associate the mark with the product rather than the producer, e.g., CAR for a car

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Trademarks—Marks That Can Be Protected

- Examples of protectable marks:
 - Product names and logos
 - E.g., DU PONT and 
 - Sales slogans
 - E.g., LET'S DO AMAZING for HP
 - Container shapes and distinctive packaging
 - E.g., the shape of a Coca-Cola bottle
 - Sounds
 - E.g., Intel "Chimes"
 - Colors
 - E.g., Owens Corning's pink insulation



Trademarks—Obtaining Protection

1. **Brainstorm** several potential marks—Better to create more than one in case some are incapable of being trademarked.
 - Best practice—Avoid generic or descriptive marks, and instead create fanciful marks or choose arbitrary marks, which have the best chance of surviving the registration process.
2. Perform a clearance **search**—Ensure that you have the freedom to use the mark and to minimize the likelihood of any issues in the prosecution of a trademark application
3. **Use** the mark in connection with your goods or services—Use is an integral part of trademark law. If not registered, use the ™ symbol. Once registered, use the ® symbol. Although trademark rights normally attach when the mark is used, it is possible to file an intent to use application with the USPTO prior to using the mark.
4. **Register** the mark—Registration with the USPTO provides important benefits and puts the world on notice that you are using the mark as a trademark



Trademarks—Rights & Duration

- The owner of a trademark enjoys the right to stop others from using confusingly similar marks in commerce
 - Although trademark rights can be acquired without registration, registration provides important benefits, including: constructive notice, *prima facie* evidence of validity, federal jurisdiction, and statutory damages
- Trademark rights last indefinitely as long as the trademark is being continuously used
 - For registered marks, renewals must also be filed from time to time to show that you continue to use the mark



Trademarks—Infringement & Other Causes of Action

- Infringement
 - An existing trademark is infringed when an infringer's mark causes a likelihood of confusion with the existing trademark.
 - E.g., MACROSOFT for software
- Other remedies for “famous” marks
 - Dilution by blurring—Unauthorized use of a famous mark on unrelated goods
 - E.g., a company that tries to sell KODAK shoes
 - Dilution by tarnishment—Unauthorized use of a famous mark on inferior or unwholesome goods
 - E.g., using a CATERPILLAR mark to sell shoddy car parts

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Copyrighted Works—Definition

- Original work of authorship fixed in a tangible medium of expression
 - Fixed—A work is “fixed” if it is sufficiently permanent, e.g., written, recorded, painted, saved to a hard drive
 - Original—A work is “original” if its author used some amount of creativity
- Examples—Textbooks, software, photographs, movies, this presentation

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Copyrighted Works—Obtaining Protection

- Protection exists from the moment a work is “fixed” in a tangible medium of expression—publication, registration, and notice are not required for the five exclusive rights to attach to a work
- For maximum protection, notice and registration suggestions should be followed:
 - Marking a work with “©” or “Copyright,” the year of first publication, and the author’s name provides notice to the world that the work is protected
 - E.g., © 2010 John Smith
 - Registering a work with the U.S. Copyright Office within certain time periods provides the highest degree of protection, allowing, for example, the copyright owner to recover statutory damages, attorney’s fees, and injunctive relief

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Copyrighted Works—Exclusive Rights

- Copyright owners enjoy the exclusive right to:
 1. Reproduce the copyrighted work
 - E.g., make copies of copyrighted software
 2. Prepare derivative works of the copyrighted work
 - E.g., film a movie based on a copyrighted novel
 3. Distribute the copyrighted work
 - E.g., sell DVDs of a copyrighted film
 4. Perform the copyrighted work publicly
 - E.g., perform a copyrighted play
 5. Display the copyrighted work publicly
 - E.g., hang a piece of copyrighted art in a public place



Copyrighted Works—Duration

- In general, copyrights exist for the life of the author plus 70 years
- In the case of a work for hire, the copyright lasts for the earlier of 95 years from publication or 120 years from creation



Copyrighted Works—Ownership of the Work of Others

- **Employer/Employee**—If certain tests are met, an employer becomes the owner of the copyright in a work created by an employee if the work was created within the scope of the employee's employment
 - Employee v. Independent Contractor
- **Works for Hire**—A company commissioning a third party to create a work may or may not become the owner; this is a fact-based inquiry
- Prudent to document these issues in a signed agreement that also contains language addressing assignment of copyright



Trade Secrets—Definition

- Commercially valuable information not generally known or readily ascertainable, if reasonable efforts are used to keep secret
- Any formula, pattern, device or compilation of information used in a business that gives the trade secret owner an opportunity to obtain an advantage over competitors who do not know it. The trade secret cannot be public knowledge.
 - Examples—Coca-Cola formula, proprietary blend of chemicals



Trade Secrets—Obtaining Protection

- If information is secret and reasonable measures are taken to keep it secret, it will be protected by law; there is no registration process
- The law does not create a monopoly for use of the secret like other protections of intellectual property; it only protects the secret from being improperly appropriated
- Unlike patents, trade secrets may be “reverse engineered,” thereby destroying the trade secret



Trade Secrets—Obtaining Protection

- Businesses must take proper steps to ensure the security of their trade secrets, including:
 - Security within the plant or office;
 - Contractual safeguards, such as non-competition agreements and confidentiality agreements, with employees and business partners; and
 - Workplace controls to prevent the dissemination of trade secrets to individuals that do not need access to them—disclosure to one person, without confidence, may destroy a trade secret.
- The more valuable the secret, the more security required for protection



Trade Secrets—Rights, Duration, & Misappropriation

- **Rights**—The owner of a trade secret has the right to sue others for improperly acquiring the trade secret or breaching confidence regarding the trade secret. There is no right to prevent reverse engineering.
- **Duration**—No limit as long as it qualifies as a trade secret
- **Misappropriation**—The owner may sue if another has knowingly misappropriated the trade secret for his or her own gain or to harm the owner



Licensing Issues

- Exclusive vs. Nonexclusive
- One or a few fields of use vs. all fields of use
- Territory—Worldwide vs. geographic restrictions
- Right to sublicense
- Royalty rate and sharing of sublicensing revenues
- Term or duration



Licensing Issues in a University Setting

- Inventor in University setting is required to disclose invention to University
- University will evaluate and decide whether to patent
- If University pursues patent it will become the owner of the patent
- Inventor must then license the technology from the University in order to commercialize
 - Typically the University receives 40%, the Inventor receives 40%, and Inventor's Department receives 20%



Licensing Issues in a University Setting

- University will frequently license a patent of a startup company owned by an inventor if the startup is serious about commercializing the technology:
 - Be a company rather than an individual inventor
 - Be capable of meeting market demand
 - Have a written plan to commercialize the technology
 - Address conflicts of interest, such as time constraints for faculty, influence over students, influence on junior faculty, effect on research



Licensing Issues in a University Setting

- Due Diligence milestones
- Minimum royalty payments
- Repayment of patent costs advanced by University
- Equity in startup to be taken by University?
- Issue fee
- License of trademarks
- www.otm.uiuc.edu



Hot Topic - IP Agreements

- It is important to execute agreements between a company and its founders, employees and independent contractors to ensure that any IP is either owned or assigned to the company
- Key Terms
 - Assignment of IP
 - Works Made for Hire
 - Confidentiality
- Shop Right - Without proper agreements in place, an employer's rights in an invention may be limited to a "Shop Right," meaning the employer receives a royalty free right to practice the patent, but the employee would own the patent



Hot Topic – Open Source Software

- Open Source software may reduce a company's costs and increase revenues, but has many pitfalls
- "Open Source" does not have a single definition, and includes many variations:
 - GPL, LGPL, Apache, BSD, MIT
- Benefits of using open source software:
 - Reduce costs; develop user communities; create revenue streams from servicing; "dual licensing"
- Risks of using open source licenses
 - Use of small parts of open source software in a larger program may require you to license the larger program under a specific open source license; loss of control of your IP; some investors and acquirers disfavor the use of open source



Hot Topic – SBIR/STTR

- SBIR and STTR funds are an excellent resource for tech companies, but proper IP management is important
- The following considerations should be taken:
 - STTR – negotiate favorable IP terms with University partner
 - SBIR/STTR – negotiate favorable IP terms with any prime or sub contractors
 - Proposals – identify and mark any confidential information or it may be disclosed
 - Deliverables
 - Review relevant FARs and DFARs
 - Identify eligible data and assert any restrictions on data rights
 - Maintain records to justify any restrictions
 - Proper procedures can increase the likelihood of a sole-source Phase III award



Hot Topic – EULAs

- EULA provides the terms under which the customer may use the software
 - Sale v. License
- Generally "Shrink-Wrap" and "Click-Wrap" licenses are enforceable, but the following should be considered, depending on the circumstances:
 - Allowing the purchaser to have the option of returning the software if it does not agree with license
 - The terms of the license should be visible prior to acceptance (i.e., do not link terms)
 - Use of language such as "By clicking this button I agree to the terms" should be used as opposed to "download"



Why do Companies Care about IP?

- Freedom to Operate—Ensure that someone else's IP will not prevent your company from carrying out its business objectives
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Mr. Singleton provides legal services to business clients in corporate, intellectual property, securities law, and real estate areas. He has frequently assisted entrepreneurs select and organize an appropriate entity and obtain capital. He has formed limited liability companies, subchapter S corporations, subchapter C corporations, professional corporations, and not-for-profit corporations, including publicly supported organizations and private foundations. Mr. Singleton has also assisted clients with mergers and acquisitions and with implementing stock option programs.

A member of the patent bar, Mr. Singleton has represented clients in patent prosecution, trademark registration, negotiation of licenses, research and development agreements and joint development agreements. He is familiar with the University of Illinois policies on technology transfer and has negotiated licenses of University technology. Mr. Singleton's real estate law experience includes purchases and sales, leases, installment contracts, like kind exchanges, and zoning and land use issues.

Mr. Singleton is active in both the business and educational communities. He has served on the Advisory Councils of numerous technology companies and served on the list of advisors at the Illinois Technology Center. He is a member of the business plan review group Second Saturday and has served as a judge for the Academy for Entrepreneurial Leadership Innovation Teams Competition and V. Dale Cozad Business Plan Competition.

Mr. Singleton maintains an adjunct faculty appointment with the University of Illinois College of Medicine. He has given guest lectures for the University of Illinois MBA course on technology commercialization, the senior Capstone Design Course in the Department of Agricultural and Biological Engineering, the Academy for Entrepreneurial Leadership Idea to Enterprise Workshop, the Technology Entrepreneur Center, the Advanced Invention to Venture workshop, the University of Illinois College of Veterinary Medicine and for medical residency programs throughout the state.

The recipient of the 2008 Entrepreneur Advocacy Award, and of the Chemical Rubber Company Chemistry Award as an undergraduate student, Mr. Singleton earned a Bachelor of Science Degree in Geology from the University of Illinois in 1988 and a Juris Doctorate from the University of Illinois College of Law in 1991. Following law school and prior to founding Singleton Law Firm, P.C., he practiced with Webber & Thies, P.C. as an associate and then shareholder.

Mr. Singleton is currently a member of the American Bar Association Sections on Business Law, Intellectual Property Law and Science and Technology Law, the Illinois State Bar Association Sections on Corporation and Securities Law (Member, Section Council) and Intellectual Property Law (Member, Section Council), the American Intellectual Property Law Association, the Intellectual Property Law Association of Chicago, and the Midwest Business Brokers and Intermediaries.

Mr. Singleton has chaired the EDC/techCommunity Mentoring Program, has served on the board of the Don Moyer Boys and Girls Club, and serves on the boards of the Mahomet Area Kids Endowment Foundation and the Mahomet Area Youth Club.

Mr. Singleton is married to local family practice physician Deborah Singleton, M.D. They have three children.

Singleton Law Firm, P.C. is dedicated to serving the legal needs of business and individual clients of east central Illinois and beyond with an emphasis in the areas of corporate, intellectual property (including patent) and real estate law. The firm was founded by attorney Alan R. Singleton and paralegal Elizabeth C. Kellner following Mr. Singleton's practice at another local firm as an associate and then shareholder. Ms. Kellner's experience includes work at the University of Illinois business incubator and then service as the coordinator and then executive director of techCommUnity. Both Mr. Singleton and Ms. Kellner are active in their efforts to grow the local business community. Both maintain contacts in the local business community and beyond which allow them to serve as a team to meet the needs of business and individual clients through the provision of value added quality legal services.