

VENABLE<sup>®</sup><sub>LLP</sub>

# Venture Services for Technology Companies

*A Tale of Two Clients*

June 7, 2011



# Presenters



**Charles Morton**  
Co-chair, Business Transactions



**Richard Frey**  
Partner, Litigation



**Mark Harrison**  
Chair, Trademark



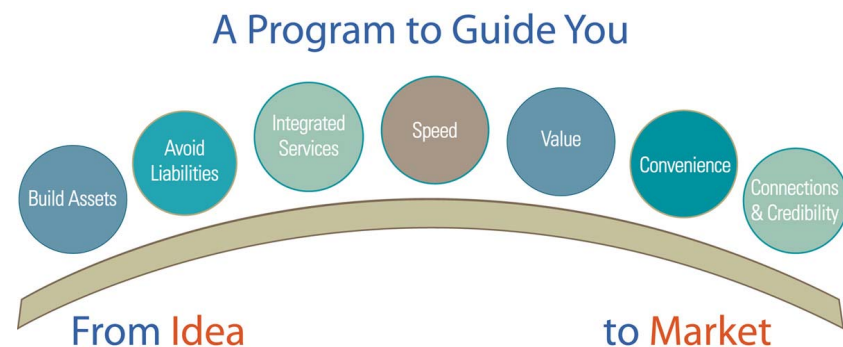
**Michael Gollin**  
Chair, Life Sciences



**James Nelson**  
Partner, Business Transactions



# Venable Venture Services (VVS) Overview



VVS provides a select group of emerging technology clients with timely, integrated legal services that provide a solid foundation for success, including strong relationships with investors, collaborators, and staff. Participants in the VVS program receive a comprehensive suite of legal services including:

- corporate structure and tax advice;
- financing (private and public);
- patent prosecution and counseling;
- trademark protection;
- IP transactions and collaborative agreements;
- employment relations and benefits; and
- regulatory legislative and other specialized assistance.



## A Tale of Two Clients

Incorporation and Finance

Presented by: Charles Morton



## Corporate Basics

- Why entities are formed
  - Create entity separate from the individuals
  - Pool capital
  - Limit liability
- Types of entities
  - Corporate
  - LLC's



## Best Practices

- Begin with end in mind
  - Anticipate multiple rounds of funding
  - Do not lose sight of the goal
  - Understand industry dynamics
- Avoid double taxation
- KISS



## Good Practices

- Have shareholders agreement early
- Understand what people are getting for their equity and what they are getting paid for their work
- Be clear about control issues
- Do not reinvent the wheel



## Common Mistakes

- Unrealistic valuation expectations
- Over think it
- The “ostrich principal”
- Fail to focus on key economic drivers
- Ignore the regulatory rules





Questions:  
RE: Incorporation and Finance



## A Tale of Two Clients

### Employment Agreements (Employee Mobility and Trade Secrets) Presented by: Richard Frey



## Checklist For Employers

- ✓ **Employee Handbook**
- ✓ **Term Employment Agreements v. At-Will Employment**
- ✓ **Establish a Confidentiality Policy**
- ✓ **Proprietary Information Agreements**
- ✓ **Invention Assignment Agreements**
- ✓ **Consideration of Non-Competes, Enforceable or Not?**

- ✓ **Conduct Exit Interviews**
- ✓ **Consider Requiring Departing Employee To Sign Affidavit/Certification**
- ✓ **Remind Employees of Their Confidentiality Obligations**
- ✓ **Disable Access**
- ✓ **Check For Signs of Misappropriation**
- ✓ **Consider Follow-Up Letters**
- ✓ **Preserve Evidence If It Looks Like Foul Play**



# Well-Represented Company



Good Habits



## Utilizes Employee Applications

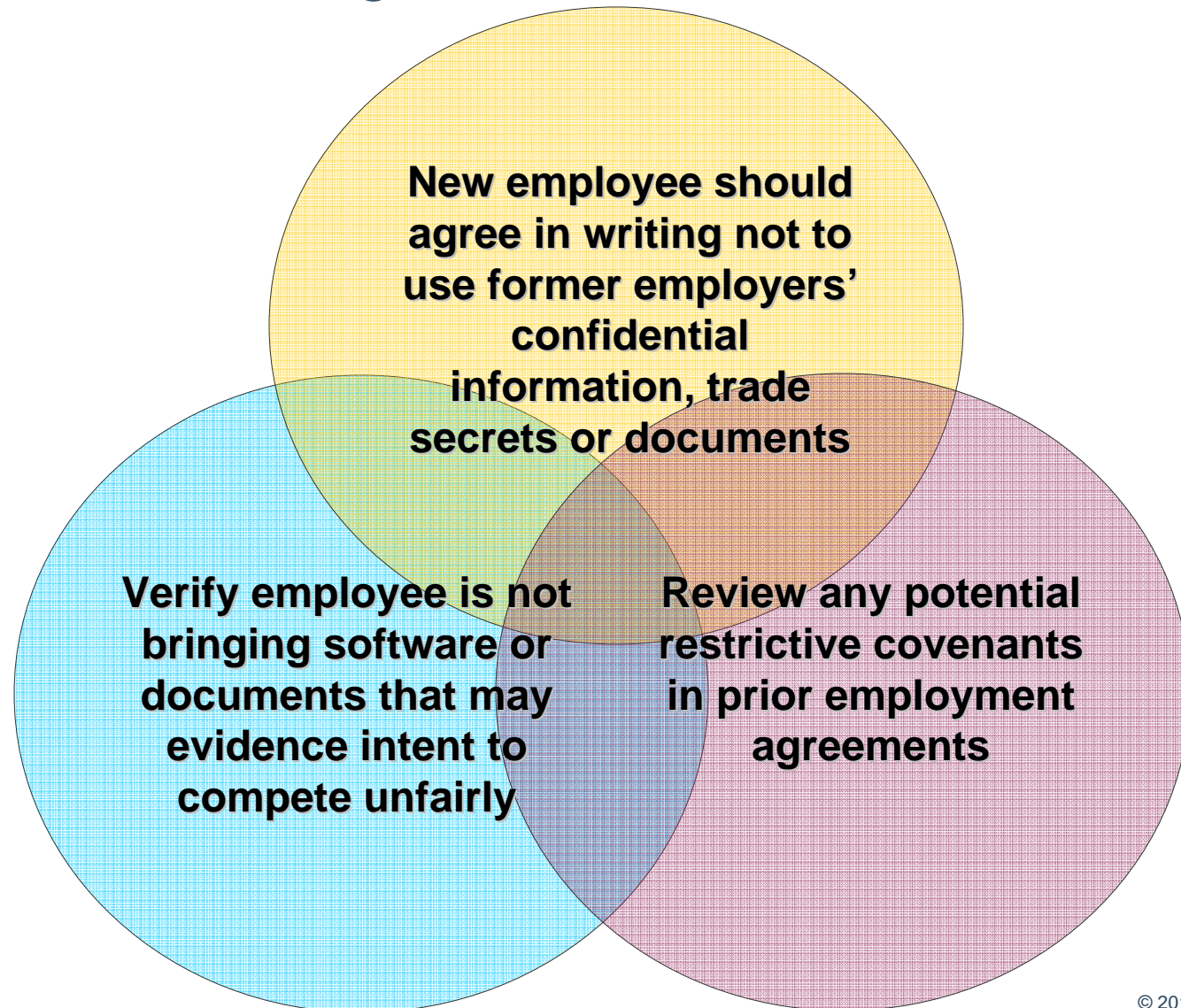


**Less likely to be  
considered a solicitation  
by new employer**

**Generally employees are  
free to apply for other jobs**



## Implements Best Approaches For Employee On-Boarding





## Bad Habits



## Conducts “Raid” Situation



**Hires a significant number of employees**



**Hires more than one key employee**



**Solicits other employees of competitor**





## Does Not Protect Trade Secrets

- **Uses private information supplied by newly hired employees**
- **Uses information developed at great expense and time by the former employer**
- **Uses disclosed information that has an economic value to a competitor**



Questions:  
RE: Employment Agreements



# A Tale of Two Clients

## Trademark Protection

(Good Habits and Bad Habits of Trademark Selection and Protection)

Presented by: Mark Harrison



- **Good Habit:** Considering all possible types of trademarks that may be protected
- **Bad Habit:** Limiting consideration of trademarks to product/service names



- **Good Habit:** Starting the trademark selection and protection process early on.
- **Bad Habit:** Waiting until just before product/service release before selecting trademark



- **Good Habit:** Selecting a trademark that will be strong, and easy to protect and defend
- **Bad Habit:** Selecting a weak trademark that will be difficult to protect and defend



- **Good Habit:** Conducting clearance searches to determine the availability of a trademark
- **Bad Habit:** Moving forward with a trademark without first conducting clearance searches



- **Good Habit:** Selecting and clearing more than one mark just in case a problem arises
- **Bad Habit:** Putting all bets on a single trademark





- **Good habit:** Seeking federal trademark registration for marks that have cleared the availability searches
- **Bad Habit:** Not seeking to register proposed trademarks



- **Good Habit:** Having a “watch service” monitor for possibly infringing marks
- **Bad Habit:** Leaving it up to the U.S. Patent and Trademark Office or chance to find possibly conflicting marks



- **Good Habit:** Considering early on what other countries are important potential marketplaces or manufacturing centers and protecting trademarks in those countries
- **Bad Habit:** Waiting to protect marks in other countries and risking that another party obtains prior rights



Questions:  
RE: Trademark Protection



## A Tale of Two Clients

### Patent Protection

Presented by: Michael Gollin



## Intellectual property counsel's basic task:

Help a company use intellectual property law to

- (1) promote exclusivity  
(creating and enforcing IP rights)  
=> build assets
- (2) access innovation  
(gain freedom to operate)  
=> avoid liabilities
- (3) manage relationships  
=> "coopetition"



## Characteristics of Good Relationship with Patent Counsel

- Integrated, strategic advice
- Knowledge of company's resources
- Familiarity with industry/competition
- Consistent planning and implementation
- Excellent skills (multiple technical areas, skilled non-legal support)
- Business sense
  - Expand IP assets
  - Improve position
  - Minimize IP liabilities



# Strategic Patent Management

- Counsel stays current with corporate mission and strategy
- Patent protection
  - Review invention disclosures with counsel
  - Timely file applications on important advances, obtain diverse coverage
  - File foreign applications on most important applications
  - Drop less valuable applications periodically
  - Link claims to corporate and regulatory strategy
- Patent enforcement
  - Monitor and notify competitors
  - Gain revenue from licensing out
- Patent clearance
  - Track competitor patents
  - Obtain clearance opinions
  - License in if necessary
- Plan ahead with predictable costs
  - Initial and periodic audits
  - Link patent expenses to expected revenues





## Consequences of poor patent management

### Wasted assets

- Employees, collaborators own inventions
- No patent portfolio
  - » no right to block copyists
  - » no licensing revenue
  - » no bargaining chips for collaboration

### Unnecessary liability

- unintentional infringement → risk of damages
- willful infringement → treble damages



## Consequences of poor patent management

- Underinvestment in patents
  - Filing too late
  - Filing “quick and dirty” applications on high value inventions
  - Not pursuing licensing opportunities
- Overinvestment in patents
  - Filing patents on low value inventions
  - Maintaining patents too long
- Investor unease with scope of protection
  - Problematic due diligence



# Consequences of poor patent management

- Nature of the problem
  - Poor relationship with patent counsel
    - Lack of knowledge
      - » company/industry
      - » Technology
    - Lack of clear budget and planning
  - Tactical, non-strategic approach
    - Failing to claim commercial embodiments
    - Claims too specific
      - » Ignoring regulatory/industry standards
      - » Not claiming what is licensed
    - Stop and go prosecution



## How to Transition to Good Patent management

- Overcome internal obstacles
  - Inertia, cost, lack of access to good counsel, lack of knowledgeable staff
- Identify problems to solve
  - Waste of assets
  - competitors can free-ride
  - liability for infringement of others' rights
- Identify good patent counsel that can work within your budget



Questions:  
RE: Patent Protection



## A Tale of Two Clients

Technology Transactions and Outsourcing  
Presented by: James Nelson



## Managing Intellectual Property Assets

- Handling of Intellectual Property Assets through Independent Contractor Agreements and Employee Assignment Agreements
- Managing Open Source Software
- Managing Customer/Outbound License Issues



# Well-Represented Company



Good Habits





## Handling of Intellectual Property Assets through Independent Contractor Agreements and Employee Assignment Agreements

- Signed agreements with all employees and contractors kept in organized file
- Confirmed inventory of any assets claimed on the way into the new job
- Clear understanding that development on company time, using company resources or using company ideas is the property of company





## Bad Habits



## Handling of Intellectual Property Assets through Independent Contractor Agreements and Employee Assignment Agreements

- No record of where assets came from or how they came into the organization
- No signed agreements so have to go figure out how to get assigned to the company now that there is perceived value
- Lax management of personnel who are developing ideas similar to those at company in their “free time”



# Well-Represented Company



Good Habits



## Managing Open Source Software

- Know where any pre-existing programs or code sets come from and the license terms that govern their use
- Track any open source code used in the organization
- Comply with any applicable open source license terms





## Bad Habits



## Managing Open Source Software

- No transparency in released products as to open source content
- No understanding of the impact of the use of open source (a.k.a. seemed like a good idea at the time)
- Impairment of asset value due to the real or perceived impact of open source



# Well-Represented Company



Good Habits





## Managing Customer/Outbound License Issues

- Well thought out and organized customer contract
- Clarity regarding the substance and type of intellectual property being licensed
- Considered positions on warranties, indemnities and limitations of liability





## Bad Habits



## Managing Customer/Outbound License Issues

- Inconsistent contracting process with some signed licenses and click-wraps and other floating out without a license
- Description of intellectual property assets that are not really protectable assets (a.k.a. What is “it”?)
- Poorly drafted ownership terms that put the ownership of the intellectual property in question
- No process to track customer feedback so never able to improve the documentation to better the customer experience



# Questions?



**Charles Morton**

Co-chair, Business Transactions  
cmorton@Venable.com  
(410) 244-7716



**Richard Frey**

Partner, Litigation  
rfrey@Venable.com  
(310) 299-9630



**Mark Harrison**

Chair, Trademark  
mharrison@Venable.com  
(202) 344-4019



**Michael Gollin**

Chair, Life Sciences  
mgollin@Venable.com  
(202) 344-4072



**James Nelson**

Partner, Business Transactions  
jnelson@Venable.com  
(212) 370-6272

