



Knobbe Martens

Key IP Agreements for Startups

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Introduction

Intellectual property (IP) is a key source of value for startups

- IP: Patents, trademarks, copyrights, trade secrets
 - Valuable exclusivity that distinguishes the startup from its competitors
 - Attract funding from potential investors
 - Make the company a more attractive acquisition target
- Various agreements to discuss:
 - Nondisclosure (NDA) / Confidential Disclosure Agreement (CDA)
 - Employment Agreement
 - Invention Assignment Agreement
 - Consulting Agreement
 - Development Agreement
 - License Agreement

Introduction (cont.)

Two key concepts common to all these agreements

- Confidentiality:

- Exclusivity from being known only to the startup
- Want to ensure that others cannot “free-ride” on your investment in developing confidential information

- Ownership:

- Exclusivity from being practiced only by the startup
- Want to ensure that you own what you think you own
- Avoid “leakage”: e.g., via joint ownership
 - Joint owners each have right to practice and to non-exclusively license the IP to others (w/o sharing proceeds)
 - But for standing to sue for infringement, need to have all joint owners join the litigation

Goals for today

What we hope to cover:

- How these concepts are addressed in these key agreements

What we hope you'll get out of it:

- Not trying to turn you into patent attorneys or give legal advice
- Want to help you to better communicate/work with your IP attorney in drafting these agreements to protect your IP

NDA / CDA

- Startup may be eager to disclose its IP
 - Raising funding: some disclosure as part of the pitch
 - But VCs often will not sign an NDA
 - Collaborative projects with consultants / 3rd parties
 - But today's collaborator can be tomorrow's competitor
- Don't lose sight of goal of protecting your IP
 - Don't use incomplete templates or boilerplate NDAs that do not properly address the situation at hand
- Common-sense measures (not relying solely on NDA)
 - Limit disclosure to only what is needed to achieve the goal
 - For technical information: get patent application on file prior to disclosure (helpful even if NDA also used).

NDA / CDA (cont.)

- To increase enforceability: NDA should be explicit
 - Purpose
 - Why is Disclosing Party (DP) disclosing to Receiving Party (RP)
 - Confidential Information (CI)
 - What information does DP consider confidential/proprietary
 - Obligations on confidentiality and use
 - What RP can and cannot do with the CI
 - Permitted recipients
 - With whom can RP share the CI
 - Ownership
 - Who owns what
- Other provisions to include:
 - RP to notify DP when any newly-developed IP is created
 - Ownership/licensing of any newly-developed IP created by RP
 - RP to notify DP of decision to develop their own product

NDA / CDA (cont.)

- Startup should be judicious about signing NDAs and receiving CI from 3rd parties
- Example: Oculus v. ZeniMax
 - O entered NDA with ZM to collaborate on VR headset software
 - CTO hired by O from ZM; he took CI from ZM and used at O
 - ZM sued O (now Facebook) and executives
 - TS misappropriation, CR infringement, TM infringement, unfair competition, breach of contract (the NDA)
 - Feb. 2017: Texas Fed. Ct. ruled for ZM for \$500M
 - Included \$200M for breach of NDA by using ZM's CI outside the bounds of the NDA
 - Dec. 2018: Parties settled for undisclosed amount

Employment Agreement

- Ownership

- Use present grant language (Promise to grant is not a grant)
 - “Employee hereby assigns to Employer ...”
- Include IP created that relate to company’s business / R+D or using company’s property or CI
 - Calif. §2870:
 - Any provision in an employment agreement which provides that an employee shall assign, or offer to assign, any of his or her rights in an invention to his or her employer shall not apply and is unenforceable to an invention that the employee developed entirely on his or her own time without using the employer’s equipment, supplies, facilities, or trade secret information except for those inventions that either:
 - (1) Relate at the time of conception or reduction to practice of the invention to the employer’s business, or actual or demonstrably anticipated research or development of the employer; or
 - (2) Result from any work performed by the employee for the employer.
- Have employee list any prior invention
- Have employee confirm that employee is not under any other ownership obligations

Employment Agreement (cont.)

- Confidentiality
 - Prohibit unauthorized disclosure and use of CI
- Prevent being tainted by IP of others
 - Prohibit use of CI of 3rd party (e.g., prior employer)
 - Have employee acknowledge the prohibition and affirm that they will comply
- Exit interview
 - Remind departing employee of obligations re: ownership and confidentiality

Inventor Assignment Agreement

- In U.S., inventions/applications/patents are owned by inventors
 - Company must get written transfer of ownership (assignment) from inventors (35 USC 261)
- Assignment Agreement should:
 - Define invention/application properly and specifically
 - Use present grant language (Promise to grant is not a grant)
 - “Assignor hereby assigns to Assignee ...”
 - Not “Assignor agrees to assign to Assignee ...”
 - Include future related applications/patents
 - E.g., continuations, divisionals, ...
 - Include right to sue for past damages

Consulting Agreement

- Similar ownership and confidentiality provisions to EA
 - But even moreso
- “Work for hire”
 - For patents, no such thing
 - Inventor is presumed to own the invention, even if funded by company
 - Must get written assignment
 - For copyrights, “work for hire” is an exception to “author is original copyright owner”; Must be either (17 USC 101):
 - (a) Work prepared by an employee within the scope of their employment
 - Title is unimportant; focus is on company’s degree of control over the work, over the employee, and status / conduct of company
 - (b) Work specially ordered/commissioned for use as one of enumerated set (e.g., part of collective work, film, translation, atlas) as long as parties expressly agreed in writing that work is a “work for hire”
 - Software can fall within 17 USC 101(a) but isn’t in set listed in 17 USC 101(b)
 - Get assignment in writing

Development Agreement

- More complicated
 - Both parties bringing pre-existing IP, and/or
 - Newly-created IP by one or both parties
- Want to clearly define each of the “buckets”
 - a) Pre-existing IP of party A or party B
 - b) Newly-developed IP by party A or party B (as part of Dev. Ag.)
 - c) Newly-developed IP by both parties A and B
- Newly-developed IP
 - Lay out who owns (avoiding joint ownership)
 - E.g., based on inventorship or subject matter
 - License to other party; right of first refusal to exclusive license
 - Include notice provision (e.g., if filing a patent application)

Patent License Agreement

- Key provisions

- **Grant:** what rights are / are not being granted

- Exclusive vs. non-exclusive

- Exclusive: promise that Licensor will not also license to a 3rd party

- Non-exclusive: promise that Licensor will not sue Licensee

- Limitations based on geography; field of use

- Can't use these limitations to divide patent ownership, but can use in license

- **Payments:** what does Licensor receive

- How calculated; milestones

- **Transferability / sub-licenses**

- **IP management**

- Newly-developed IP: who owns; who controls prosecution; who pays MFs

- **Representations and Warranties**

- Given by Licensor: affirms Licensor has ownership, right to grant license, validity of patents (to Licensor's knowledge), no infringement (to Licensor's knowledge)

- Given by Licensee: Disclaimer of implied warranties

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