



the attorney's side and the scientists' side, to try to move things forward."

(To qualify for a patent, which typically is valid 20 years, an innovation must prove patent eligibility in one of four categories – a process; machine; manufacture; or composition of matter – defined by the US Patent and Trademark Office (USPTO). Once that threshold is crossed, the innovation further must be "useful," "nonobvious" and "novel" – terms that allow for some degree of subjectivity – compared to earlier patents.)

In many cases then, it's key to work with an attorney specializing in patent law – not all IP attorneys do – or with a patent agent registered with the USPTO to identify what innovations coming out of your firm may be eligible for patent application.

Taking time to check for eligibility can save thousands of hours and dollars, since pursuing a patent can easily cost \$20,000 or more – depending on the level of sophistication of technology being protected – in a process that often takes three to five years.

Just "getting a good handle on what they have and what they may be able to claim and differentiate as IP" is often a startup's first step in protecting their IP, agreed Sean O'Leary, associate vice president of the Kentucky Science and Technology Corp.'s Kentucky Enterprise Fund.



Non-intentionally disclosing your IP may be easier than you think: Any disclosure at trade shows counts. Sharing off-hand details about your new invention with a friendly waiter at a restaurant counts.

What's more, there's no so-called 12-month grace period for patent application internationally, meaning that any public disclosure without a patent application already in place can nullify your ability to file for a patent – at all – in foreign countries.

"To preserve all potential patent protection anywhere in the world, it's essential

to at least file in the U.S. before you go to market," said Jack Wheat, an IP attorney in Louisville and partner at McBrayer, McGinnis, Leslie & Kirkland.

"Public disclosure can be a bar to patentability. A lot of times we need clients to keep information confidential until we

get a patent application on file," said Terry Wright, a registered patent attorney and member of the Intellectual Property and Technology service group at Stites & Harbison in Louisville.

"The rules regarding public disclosure are pretty strict," said Mandy Decker, a registered

patent attorney and Wright's IP service group colleague at Stites & Harbison. "If you have non-disclosure agreements, or NDAs, in place, talking with even one person – even if it is just a waiter at a restaurant – outside of that NDA about your invention or product can ultimately jeopardize your ability to protect your rights to the IP, as drafted in the NDA contract."

"If a company can show that the inventor went to a trade show and disclosed his invention to a bunch of people, or did something else that made a disclosure not under secrecy, that can undo the benefit of the NDA," agreed Steve Hall, a partner with Wyatt, Tarrant & Combs in Louisville and member of the firm's intellectual property protection and litigation team.

"A good rule of thumb: Whatever you do, make sure you're doing it on purpose. Don't make disclosures by accident. Don't lose rights to secrecy or confidentiality unwittingly. That's one of the areas where having a good patent advisor comes into play," Hall said.

Decker advises that clients utilize contractual non-disclosure agreements or confidentiality agreements whenever they're planning to talk with any potential business partner or investor.

Her client Sam Lee said he has this made a matter of course in his day-to-day business operations. Lee is founder and CEO of Louisville-based NormaLyte, producers of an oral rehydration salt that, when mixed with water, can treat dehydration and replenish a person's electrolytes.

Before contracting with manufacturers in India, members of Lee's NormaLyte team met with them face-to-face to sign NDAs, "so that they cannot sell our formula to certain countries and continents in the world," he said.

"Before we shared any of our stuff with them, we made sure all the paperwork was in place," Lee said. "In my mind, you just can't protect yourself enough. We have everyone – even our own employees – who is working with any part of our product or who has any exposure to our IP signing an NDA. We're point blank about it: We tell them, 'This is to protect both you and me.'"



## 2 NEVER DISCLOSE YOUR IP UNINTENTIONALLY; HAVE NON-DISCLOSURE AGREEMENTS IN PLACE AS A MATTER OF COURSE

This is key for several reasons. First, any public disclosure of your company's IP begins the clock running on your ability to file for patent protection: In the U.S., a firm or inventor has just 12 months from the time of first public disclosure in which to apply for a patent. If that one-year deadline is missed, the IP becomes part of the public domain and is no longer patentable.

## 3 UNDERSTAND THE VALUE OF FILING A PROVISIONAL PATENT APPLICATION; FILE WITH DELIBERATE SPEED

In 2011, the America Invents Act changed U.S. patent application law from its previous first-to-invent standard (which relied on inventors' lab and technical records to prove date-of-idea conception) to instead now give priority for being "first-to-file" a patentable idea – in accord with international patent law.

While the "first-to-file" change has, in terms of the rule of law, made filing a patent application as early as possible all

the more important, in practice the need to file with “deliberate speed” has always been the case, Hall said.

“We’ve always told clients to move with deliberate speed,” Hall said. “When your idea is fully realized in your mind, that’s the time to move with deliberate speed to get it patented.”

Above all, Hall advised, aim to have at least a provisional patent application in place before reaching out to potential business partners or investors.

“When the person has an idea and is contemplating seeking a private funding source, whether it’s an investor, a group of investors, an angel, or an established company, I think it’s helpful to have a patent application on file before that contact is made. It’s not an absolute requirement, but I think it benefits both sides,” he said. Without that patent application in hand, Hall said, trying to litigate any potential infringement that may come out of a disclosure at such a meeting creates a “very muddy litigation picture.”



Sam Lee

– does not require full delineation of “claims,” which outline how the law will define future infringement by others, Hall said. Provisional patents are typically cleared in just a few months; immediately after applying, the innovator is able to use the “patent-pending” status on their property.)

While provisional patent applications can be a key tool in protecting intellectual property – essentially offering inventors’ a date stamp on their property while they build their market, further develop their innovation and prepare to apply for the full, non-provisional patent – the danger is that too many inventors attempt to file overly vague provisional patent applications, which essentially negates their value, Hall said.

“You don’t want to file something that is very thin and think, ‘Let’s see if there’s

any interest, and we’ll beef it up in a year when we go to file the non-provisional,’” Hall said. “It’s very important that you file a detailed description in the non-provisional patent application.”

Many potential investors look to ensure that a start-up firm has at least a provisional patent on file for IP before even considering investing. At times, that’s true even when the IP may not be essential to the company’s

primary product or focus, O’Leary said.

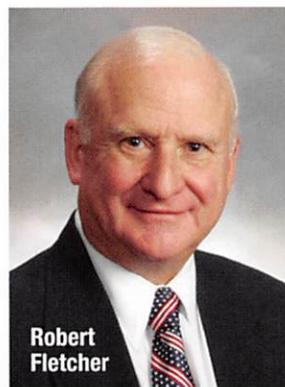
“We see companies that will patent something, perhaps not even vital to the business, as a sort of check-the-box thing, (so they can say to investors) ‘Yes, we’ve applied for this patent.’ Ultimately, investors want to see that there is something definable around the company, something

that will give it an edge that it can compete in, and in many cases, IP is sort of the proxy for that,” O’Leary said.

#### 4 CONSIDER IP INSURANCE; THE ONUS IS ON PATENT’S HOLDER TO PROTECT AND ENFORCE IT

Once a patent is granted, it’s up to the holder to monitor for infringement and enforce its protection – but doing so often requires entering into patent litigation, which is, by all accounts, very expensive. IP insurance provides funds to pay for attorney and legal fees involved in any IP litigation defending patent claims. Thus, securing an intellectual property insurance policy early on in a new business venture can be key.

Louisville-based Intellectual Property Insurance Services Corp., or IPISC, is the industry leader in



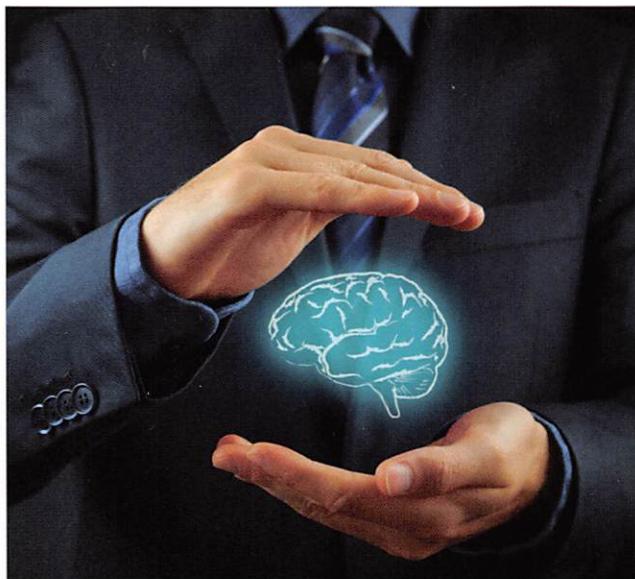
Robert Fletcher

intellectual property insurance services, providing policies to protect clients’ IP for more than 25 years.

“We, here in Louisville, dominate the U.S. IP (insurance) market at this time. Kentucky is the mecca for IP insurance at this moment,” said Bob Fletcher, president of IPISC, who moved from a career with GE to investment banking at Hilliard Lyons before buying out IPISC from Hilliard Lyons in 1990.

While other IP insurance firms have come and gone in that time, Fletcher attributes IPISC’s success to its IP-minded approach to underwriting policies.

“Other people who have tried to get into the business in the U.S. wrote the policies from a commercial point of view,” he said. “One by one we saw those competitors come into the business, take serious losses and then drop the product again. But we’ve prevailed by our strong technical underwriting. We are all technical people. We have five patent attorneys and a patent agent and a lot of technical help. So we underwrote our policies from a technical point of view.”



(A provisional patent application is less expensive to file than a full, or non-provisional patent application and is valid for 12 months, by which time the full patent application must be filed. Provisional patent applications require inventors to describe the IP’s functionality and innovation but – unlike the non-provisional patent appli-

One of IPISC's largest successes to date was the 2014 Supreme Court ruling in which its client, Octane Fitness, won and was awarded precedent-setting defense fees against a litigating market competitor.

When evaluating whether or not the expense of obtaining an IP insurance policy is worthwhile, companies should evaluate how vital being able to enforce their patent is to their overall business success, Decker advises.

"If being in a position to enter into patent litigation to enforce your patent is a very important piece of your business model," she said, "and you don't necessarily have other funding to achieve that goal, then it may become useful to obtain some IP insurance so that you're in a position to enforce your patent if you need to."

copyrights and trademarks for their intellectual property are also essential.

First, while it's commonly understood that any original creative work can be said to be copyrighted immediately without actually filing for a copyright through the U.S. Copyright Office – an application process that costs roughly \$30-\$50 – those rights cannot be enforced in federal court, explained Amy Berge, an IP attorney with Middleton Rutlinger law firm in Louisville. Types of property eligible for copyright protection include written manuals, books, articles, advertising materials, websites and computer software.

Items eligible for trademarks could include a company's name, logo or tagline. Applying for a trademark through the USPTO costs around \$200-\$300, with additional attorney fees of roughly \$1,000. Trademarks are typically granted in about three months and must be renewed usu-



ally every five to six years, said John Schlipp, associate professor and intellectual property librarian at Northern Kentucky University's Intellectual Property Awareness Center.

IPAC offers frequent IP workshops and one-on-one consulting – both in-person and online – to community members with IP questions.

Company names are especially important, Berge said. Companies should give careful thought to their name and work with an IP attorney to ensure it is eligible for trademark both by not infringing on others' trademarks and by meeting the legal definition of being specific and protectable versus being overly vague or generic.

"The more creative you are (in developing your name), the better able you are going to be in protecting your mark," Berge said.

For example, Wheat said, much as they might want to a new distillery could not name its product "Good Whiskey" because

## 5 UTILIZE CONTRACTS TO CLARIFY WHO OWNS ANY IP COPYRIGHTS OR TRADEMARKS

While the above IP discussions have centered mostly on patent-related issues, firms should understand that obtaining

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that is too general and could be said to potentially apply to any whiskey on the market.

"It might look nice on a bottle, but it's too descriptive of a name to be protected by trademark," Wheat said. "Anyone in the industry could say, 'Our whiskey is good whiskey.'"

Further, companies need to be mindful up front to establish clear contractual ownership of any copyrighted and/or trademarked material that may be developed by a third-party contractor, such as an advertising firm or software developer. "Unless you expressly state in the contract that all copyrights are assigned to you," Berge said, "then the independent contractor would own it, and you would not."

Wheat agrees.

"All you need is a simple form agreement in place, which we do for clients all the time," he said. "If you're going to bring in anyone seeking collaboration or if you're seeking any outside assistance, you need written understanding of who will own the resulting intellectual property. For example, if someone is creating a software program and they bring in an outside consultant to draft some of the code, unless there is a signed written agreement providing otherwise, then that outside consultant will be at least co-owner of the copyright in the software program."



John Schlipp

While many IP discussions tend to focus on patents, as Wheat noted and as business headlines in Louisville last year have shown, the value of a good trademark can sometimes itself be worth millions of dollars.

"We're seeing these multimillion-dollar sales and of trademarks lately in the industry. Two examples that come to mind are when Hillerich & Bradsby sold the trademark for Louisville Slugger to Wilson Sporting Goods" for \$70 million, Wheat said. "The other was the recent news of the sale of GE's appliance park in Louisville, in which the purchaser is acquiring the rights to call their appliances

GE appliances for 40 years, in a trademark licensing agreement."

## 6 SOMETIMES IT'S BETTER TO USE A 'TRADE SECRETS' OR A NON-IP, FIRST-TO-MARKET STRATEGY

When you file for a patent, you must publically disclose the details of your intellectual property within the application, in exchange for a patent protection of 20 years, if granted. Trade secrets, on the other hand, have no limitation of protection, assuming they can be kept secret via NDAs or confidentiality agreements.

A quick question of reverse engineering can often determine whether or not utilizing a trade secret approach is even an option, explained patent attorney Warren Schickli of Lexington's King & Schickli law firm.

"If the technology can be reverse engineered, then you don't consider trade secrets. Since most things can be reverse engineered, trade secrets are generally taken off the table very early on," he said. But in cases where the IP is not self-evident, "then trade secrets are actually an attractive option because the protection can last as long as you can keep the secret, so conceivably it could last forever."

While the recipes for KFC and Coca-Cola are perhaps the most famous trade secrets in America, Schickli noted that many trade secrets are intentionally invisible to the public, since companies may choose not to advertise or market them, simply saying instead, for example, "our saw blade cuts better than competitors'," without telling the proprietary reasons why.

"Trade secrets don't cost you anything, but you have to understand how to protect them as trade secrets in your dealings with investors," said MEP Equine Solutions CEO Hauck. "You have to be very careful about how you handle that information, but it can be a fantastic way for some companies to be able to not have to file or disclose or go through the expensive IP process and yet still keep their idea novel and unique while they further develop their prototype and proof of concept."

A first-to-market strategy that foregoes pursuit of IP development entirely is an altogether different approach that may



"I'll need you to sign this full nondisclosure agreement."

be appropriate for some business models, Hauck said.

"If your product is just a different application of something else already out there, and it's questionable whether or not you will be able to obtain a patent for it, then first-to-market may be the more important priority," Hauck said. "If, for example, you're coming up with a new way to take a pan out of the oven, you don't want IP out of that. You want to come up with some way to produce it cheaply and be first to market and then get out (before competitors begin copying you). That is also a viable business model for some companies."

Ultimately, companies should sit down with their attorneys and financial advisors to investigate all their options. "You need to understand that IP (protection) does cost the company to get there. So you have to know your company and know which risks you should pursue," Hauck said.