

# Intellectual Property & Licensing Law

## A ROUNDTABLE DISCUSSION



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As the legal landscape continues to evolve in terms of intellectual property and licensing law, the Los Angeles Business Journal once again turned to some of the leading IP attorneys and experts in the region to get their assessments regarding the current state of IP legislation, the new rules of copyright protection, licensing and technology, and the various trends that they have been observing, and in some cases, driving.

Here are a series of questions the Business Journal posed to these experts and the unique responses they provided – offering a glimpse into the state of intellectual property law in 2019 – from the perspectives of those in the trenches of our region today.

Thanks to our superb panel for their expert insights.

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ELIZABETH M. SBARDELLATI



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MICHAEL QUACKENBUSH



### Is there pending new IP legislation coming soon? If so, does this stand to help or hinder existing businesses?

**LEE:** On October 22, 2019, the Copyright Alternative in Small-Claims Enforcement (CASE) Act passed the House of Representatives, with a vote of 410-6. It proposes creating a voluntary small claims board, called the Copyright Claims Board (CCB), within the U.S. Copyright Office. The CCB will serve as an alternative forum to federal court for copyright owners to bring copyright claims. Here are a few notable provisions. The legislation allows the copyright owner to elect either actual damages and profits, limited statutory damages, or no damages, mirroring the current process under 17 U.S.C. §504. But, the total monetary award in a single proceeding will be capped at \$30,000, with a cap of \$15,000 in statutory damages per work infringed. In addition to monetary awards, the CCB can impose a requirement on the accused party to cease or mitigate infringing conduct. Further, under the Act each party shall bear its own attorney fees and costs, except when the CCB determines that a party “pursued a claim, counterclaim, or defense for a harassing or other improper purpose, or without a reasonable basis in law or fact.” Even then, the attorneys’ fees and costs are generally capped at \$5,000 or \$2,500 for parties proceeding pro se. Finally, to avoid violating the Seventh Amendment’s right to a jury trial, defendants facing a copyright claim before the CCB would be allowed to opt out. Groups like the Copyright Alliance, a coalition of entertainment industry groups, praise the Act for providing an “inexpensive and streamlined alternative” for small copyright owners to “protect their creativity and their livelihood.” The Act has faced opposition, largely out of fear that it would subject more businesses and everyday content users to a CASE lawsuit. As we have seen in the increasing number of copyright lawsuits, some rightsholders and their attorneys litigate an unauthorized use no matter how small, unintentional, or fair the use is. Whether you are for or against the Act, you will likely see it pass the Senate and be signed by the President in 2020.

### When is it time for an IP owner to implement an enforcement program?

**QUACKENBUSH:** The first step in any solid enforcement program must be registering your patents and trademarks with the US Patent and Trademark Office. Once your trademark is being used either by your company, or is being licensed, you should register your trademark for enforcement purposes with relevant Customs agencies – which should be done right away. You don’t want to delay the registration of the trademark with Customs agencies because the trademark’s value and recognition could increase dramatically in a short period of time. Failure to adequately protect your trademark could lead to an action whereby another individual or company could make a case that the trademark has been abandoned and that third-party could attempt to claim ownership. You have to establish your ownership with governments and the

marketplace and then enforce your rights of ownership. In fact, what many companies often don’t realize is that they can (and should) register a trademark with any customs agency that “touches” the goods. Even if it is only passing through the port in a given country, on its way to another country, each Customs agency can still play a big role in keeping an eye out for unauthorized use of your trademarks.

### What are some common copyright issues that small businesses face? How can they best be addressed?

**LEE:** It is important to know whether what you have created is copyright-protectable, and to set aside a budget for registering your works as early as you can. Copyright holders can take advantage of statutory damages (up to \$30,000 per work or \$150,000 per work if the infringement is found to be willful) and can recover attorney fees, when the work is registered prior to infringement or within three (3) months of its first publication. In March, the Supreme Court gave copyright owners yet another reason why securing an early registration is important. In *Fourth Estate Public Benefit Corp. v. Wall-Street.com, LLC*, the Court ruled that a copyright owner must have its work registered by the Copyright Office prior to filing a copyright infringement action. Given that it usually takes more than eight months to get a copyright application approved, the Copyright Office generally requires each work of authorship to be registered on a separate application, and each application costs \$55 to file, small businesses need to stay vigilant and strategic when it comes to filing applications early. For example, consider registering works before publication as unpublished works, especially in case of collective works, group registrations, or works packaged as a single unit, to reduce filing fees. Equally important is making sure you own the copyright in works that are created for your business. Since small businesses may not have inhouse staff with the required skill to create a design or content, they may have to rely upon outside independent contractors. If a small business hires an individual as an independent contractor to create a work, the contractor is considered the author and copyright owner of the work, not the business. In such cases, the small business must acquire the exclusive rights to the work through a signed written agreement. Even before the work commences, consider having a copyright assignment, including “work made for hire” language, signed. Finally, with the impending passage of the Copyright Alternative in Small-Claims Enforcement (CASE) Act, small businesses need to be even more vigilant and mindful before posting or using others’ works. There are some common errors concerning fair use. Changing someone else’s work “enough” or adding new material to it does not necessarily make it fair use. Giving credit to the author or stating a disclaimer does not make your use of someone else’s work fair, nor does using it for non-profit or entertainment purposes.

### What are some of the most common mistakes that businesses make when it comes to intellectual property?

**SBARDELLATI:** So much of success today depends on a strong brand. However, too many companies invest in developing and promoting a brand name without consulting a lawyer or engaging in due diligence and clearance regarding the availability or registrability of the brand name. Often, after investing money developing and promoting the brand, these companies are confronted with the reality that the name they chose is considered descriptive, and therefore not registrable (except in limited circumstances) or enforceable in any meaningful sense, and/or infringes a third party trademark, opening the company up to liability. This leaves the company with limited and undesirable options: start over or proceed with a weak and/or vulnerable brand. Spending the time and money up front on brand name clearance can save a lot of money and legal strife in the long run.

**QUACKENBUSH:** In my experience they fail to properly protect their IP and ensure that revenue is properly collected from IP monetization strategies. Firstly, companies frequently patent their technologies and register their trademarks in their home country but then do not adequately protect and register their patents and trademarks in other relevant countries around the world allowing them to enforce those patents and trademarks. Further, with respect to trademarks they do not utilize customs authorities around the world to enforce the legitimacy of those trademarks. Another common mistake I encounter is when a company enters into a licensing agreement they do not structure the licensing agreement to ensure that the money that they expect to collect is actually collected or secured. Additionally companies perform little due diligence on their licensee when licensing IP. Such due diligence in advance of licensing IP would afford the licensor useful information with regard to the licensee’s financial standing, operations, intended use of the IP and other valuable information.

**LEE:** It depends on the size and nature of the business. For a small startup, it is important to strike a balance between adequately addressing IP issues while not over-allocating its finite resources. While it is more important to address industry-specific regulatory requirements over IP protection, there are a few priorities. Before adopting a name, businesses should conduct at least a Google and Trademark Office search to make sure the name is available. If you are planning to launch an app, it is important to check the app stores as well. Once the name is cleared, it is important to secure a URL and social media handles. Even if you do not have an immediate plan to market or offer goods online, do not ignore the importance of adding the URL and handles to your IP portfolio as these are additional items that investors look for in IP portfolios. If you are a tech company and have something you plan to protect through patent, consult counsel immediately and don’t disclose it to others. Make sure to have a well-drafted non-disclosure agreement handy and don’t be shy about getting it signed before disclosing your invention. Even when you plan to seek patent protection for your invention, consider implementing proper protocols to ensure that it is not vulnerable to theft and treat it as a trade secret. By definition, trade secrets derive independent economic value from not being



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generally known to the public or to other persons who can obtain economic value from its disclosure or use. In determining whether something is a trade secret, courts look to the efforts its owner has made to maintain its secrecy. Don't forget to limit access within your business, too: it is as important to limit access to the trade secret on a need-to-know basis internally as concealing it from the public.

#### In this day and age, what are the benefits of US trademark registration? What should and shouldn't be trademarked?

**QUACKENBUSH:** I would just focus on one benefit in particular with respect to US trademark registration and that is the enforcement potential that comes from registering an approved trademark with US Customs services. For a nominal fee a company can file with US Customs its trademark and ask US Customs to monitor the use of the mark within imports and exports of products. This registration and enforcement process is enhanced by educating US Customs on a number of specifics with regard to the trademark including but not limited to; proper use of the trademark, approved manufacturers, distribution channels, etc.

**SBARDELLATI:** When it comes to trademark registration, balance is key. While there are certainly benefits of registration, over-registration can be costly without reward. Legally, trademark registrations provide their owners with certain rights in trademark litigation that the owner of a common law trademark (a word or phrase used to identify the source of a good or service without registration) would not have. However, because trademark litigation is expensive and substantial damages are rarely awarded even to successful litigants, most registrants will never file suit. Therefore, the practical benefits of trademark registration are ultimately more important. These include enforcement (e.g., cease and desist letters), takedown procedures (e.g. stopping the sale of counterfeits/knock offs on marketplace platforms like Amazon) and valuation in connection with investments and sales. Unsophisticated infringers are more likely to take a cease desist letter seriously, if there is a trademark registration at issue. Likewise, Amazon, eBay and similar platforms are set up in such a way that having a registration will make the takedown process much quicker and more efficient. Finally, investors and purchasers view registrations as assets that can be exploited. So, when considering what to register, it is important for companies to consider their brand identities, growth goals and, for startups in particular, exit strategies. For example, a brand that relies primarily on one house mark to identify all of its goods/services should primarily invest in that house mark rather than seek registration for the name of every new product or service it intends to offer. This saves on registration costs, while providing the brand with protection of its most important mark. On the flip side, it makes sense for companies that intend to offer a number of different products or services under different marks to seek registration for each of those marks. This will provide the company with protection of each distinct brand and gives

the company flexibility to exploit the brands separately or as a package.

**LEE:** Whether you are buying or selling consumer goods, many companies encounter counterfeits and other forms of trademark misuse. A recent report from the Commission on the Theft of American Intellectual Property put the value of the loss to the United States from counterfeit goods, software piracy, and trade secret theft as high as \$600 billion per year, much of that due to international culprits. Due to the size and complexity of the problem, it is simply not feasible to combat it on your own. Brand owners need to consider partnering with government agencies and providers of e-commerce platforms. In order to do so, they need to prove that they are the true owners of the brands. For example, brand owners can record their trademarks with the U.S. Customs and Border Protection (CBP) so it can detain and seize imported goods in violation of intellectual property rights in the United States. In its recordation application, however, CBP requires brand owners to provide their registered trademarks by entering the registration number(s) of the mark(s) they wish to record. Without a trademark registration number, brand owners cannot complete a recordation application. Similarly, to report a counterfeit or misuse of your trademark to a social media company or securing and/or reclaiming hijacked domain names and social media handles, having the mark registered is tremendously helpful. In fact, to report a counterfeit good or misuse of a mark on Facebook, Twitter, or other social media platforms, you are often asked to provide not only the mark but also the trademark registration number and even a copy of the registration certificate. As many know, Amazon has been actively urging brand owners to enroll their brands in what is called “Amazon Brand Registry.” As part of the enrollment, Amazon sends a verification code to validate the identity of the individual seeking to enroll the brand with the Registry. When the brand owner applies to register its brand, the first thing Amazon does is check the United States Trademark Office database to ensure the mark is registered. If so, it pulls the email address listed for the registered mark and emails a code to that address. Thus, without a registration, brand owners cannot take part in this program. Finally, if you are planning to raise capital, whether through angel investors or venture capitalists, one of the first things they will ask for is your IP portfolio, including your trademark registrations. You may have used a mark for years, thereby accruing common law rights and goodwill. But, if you don't have a piece of paper from the United States Trademark Office certifying that the mark is registered, it could discourage investment and lower your value to investors.

#### What are some aspects of non-compete agreements that businesses may not be aware of?

**LEE:** It varies from state to state. In California, it's safe to assume that non-compete agreements are void and unenforceable, even if their terms would be considered “reasonable” and thus enforceable in other states. Under Section 16600 of the California Business and Professions

Code, void are agreements “by which anyone is restrained from engaging in a lawful profession, trade or business of any kind.” However, this does not mean limits cannot be placed on competition. California allows three exceptions to this strict prohibition: the seller of a business, a former business partner, or a former LLC member may be refrained from carrying on a similar business within a specified geographic area. Often issues surrounding non-compete agreements stem from employer-employee relationships to which none of these exceptions apply. So, instead of expending time and efforts negotiating and crafting non-compete agreements, employers in California should focus on imposing stricter confidentiality obligations and restricting their use of company trade secrets.

#### Do most businesses these days need international protection on IP and licensing issues?

**SBARDELLATI:** The answer to this question is highly dependent on what the business does, where it manufactures/operates/sells, and what its growth plans are. For example, if goods are being manufactured and/or sold abroad, it makes sense to get protection in the countries of manufacture and sale. This is a question that should be considered early and reassessed often as the company's plans evolve. If a company has a five-year plan that includes expansion of sales or manufacturing operations into new territories, protection should be sought in those new countries at the earliest opportunity. A common refrain I hear from clients is frustration over the difficulty of enforcing IP rights internationally. While this is often the case, failing to secure international rights can actually prevent a company from doing business in a territory or create liability for a company because a third party has swooped in and secured the rights.

**LEE:** With a few exceptions, most companies express a need for international protection on IP in one way or another. When mapping out and strategizing company growth, we often focus on a number of SKUs or employees we need to hire. Included in that discussion are (i) the countries in which you manufacture now and may manufacture in the future, (ii) the countries you sell now and may sell in the future, and (iii) the countries from which you are receiving inquiries about potential partnership, distributorship, or any other business opportunities. It is important to create a list of them and get a realistic budget from your IP counsel for obtaining patent protection, trademark registrations, and any other relevant IP protection. While we often hear complaints about how difficult it is to enforce IP rights outside the United States, you won't have any rights to enforce if you don't even try to secure IP rights.

#### What advice would you give to an early stage technology company with respect to protecting its intellectual property assets?

**QUACKENBUSH:** Use a properly written non-disclosure agreement when discussing the IP with potential customers

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and partners that references the particular IP being discuss. Too often we see NDA's that are boilerplate agreements that are not specific to even the IP being shared. Also ensure that employees are subject to NDA's and that their ability to maintain and transmit sensitive IP is restricted.

**SBARDELLATI:** Own your tech. Each and every person helping to develop the company's tech needs to sign a work for hire and/or assignment agreement. Early stage companies often see such agreements as creating an adversarial relationship between the developer and the company and incorrectly believe that paying the developer is the same as paying for ownership rights in the tech. However, the law is very clear to the contrary. Without an agreement in place clearly stating that the company is the owner of the tech, the developer may later claim rights in whatever s/he developed leaving the company in a sticky situation without much leverage because it is dependent on the tech. For this reason, investors and purchasers of tech companies expect to see such agreements in place. The lack of these agreements is a red flag and may derail the deal. Most investors or purchasers will require the company to put such agreements in place before moving forward with the investment or purchase. Again, this puts the company in a situation where it has little to no leverage against at the company or the developer and will likely have to expend valuable resources in order to secure its rights.

**LEE:** a) Document and keep clear records of your creation process and where it is made. Determining inventorship and ownership in intellectual property can get tricky and costly and varies from state to state. If you are coming up with new ideas while working for someone else, make sure to separate your day job from your future job. That includes using a different email address and a different computer and working only at off-hours. b) Make sure the company owns the rights in the inventions created by employees. Have employees sign invention-assignment and confidentiality agreements early by including them in the initial employment agreement. In such agreements, avoid language that the employees "will assign" or "hold in

trust" their inventions as such provisions will be construed as simply invoking "a promise to do something in the future and not effect a present assignment." Instead, make it clear that the employee is agreeing to promptly make full written disclosure of inventions and "hereby assign all right, title, and interest in and to" the inventions. c) All inventions should be assessed for patentability and on sale bar issues ASAP. The deadlines on these are tight. For tech companies, mistakes made and corners cut early on can cause a loss of exclusivity and market share down the road. d) Diversify your IP portfolio. Utility patents are great, but are not the only way to protect your intellectual property. Evaluate the company core assets and consider protecting them through design patents, copyright, trade secrets, and trademarks. To the extent there are trade secrets, adopt

and implement clear, visible policies and protocols to demonstrate they are in fact protected as trade secrets. e) Don't overlook international protection. Consult patent counsel early on. f) Litigation is inherently unpredictable and sucks up your time and money. It should be a last resort. Even then, engage in litigation only if it will bear significant benefits to the company.

**Are there any hurdles to consider (pertaining to intellectual property) when one company acquires another?**

**SBARDELLATI:** Whenever one company acquires another there is a due diligence process. The company being acquired

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ELIZABETH M. SBARDELLATI

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Our attorneys have extensive experience in intellectual property law, advising both emerging companies and established players in creative-driven industries including entertainment, video games, digital media, fashion & beauty, food & beverage, and more.



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IRENE Y. LEE



will be expected to open its records to the purchasing company. The purchaser will scrutinize whether the seller securely owns all of its IP and whether any of that IP is vulnerable. Therefore, it is critical for companies—from the earliest stages—to document their relationships with their employees and independent contractors with work for hire and assignment agreements as well as non-disclosure agreements.

**LEE:** Yes, there are hurdles. Here are a few tips. If you are the party acquiring another’s company or assets, make sure to conduct your own independent due diligence to identify the IP that is being acquired. More often than not sellers don’t have a complete and accurate picture of their own IP rights. Make sure to check the current ownership and

license status of all the patents, trademarks, trade names, domain names, social media handles, URLs, trade dress, copyrights, trade secrets, and know-hows that you will need to have in order to continue operating the business you are acquiring. Make sure to have the seller remove all the security interests in the IP before closing. If the acquisition is an asset purchase as opposed to an equity purchase, make sure to set aside sufficient funds to secure and record necessary IP assignment documents, including specific forms that many countries require. To record assignments of sizable IP rights in doze territories, it can easily cost hundreds of thousands of dollars. Finally, make sure the seller’s IP attorneys will cooperate with you in transferring files and answering questions about their previously made strategic decisions. You may not think to ask certain

questions during due diligence but may need to know the answers once you take over the IP portfolio and have to manage it effectively.

**What’s involved with registering a trademark with Customs agencies?**

**QUACKENBUSH:** Registering a trademark is the relatively easy, and affordable, part. Beyond that, to effectively enforce the trademark, Customs agencies must be trained and educated on who the authorized manufacturers and distributors are for your mark, any identifying features to look for, etc. It is also helpful for Customs agencies to know who known counterfeiters are of your trademark. Most Customs agencies are serving on the front lines of protecting your IP, but they need to be trained to know what to look for – and that responsibility ultimately lies with the trademark owner. I work with Customs agencies around the world to provide that education and training on behalf of my clients.

**What should a business look for when selecting a law firm to represent their IP or licensing interests?**

**SBARDELLATI:** Businesses should find an IP attorney who will be part of their team, meaning someone who will take the time to learn about the business’s people and goals and offer practical advice that propels the business forward, rather than focus on narrower IP issues and solutions exclusively. This is important because IP is only one aspect of the business and there’s always more that can be done in terms of IP protection—more registrations in more countries means more protection, but it’s also quite expensive. Do the benefits of that protection propel the business forward? If not, the budget would be better spent elsewhere, e.g., on product development or promotion. The right IP attorney will take the time to understand the big picture and advise her clients to strike the right balance.



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