

In this Issue:

- **Court Applies “Reasonableness” Standard to Invention Assignment** By: [Corky Klett](#)
- **“I Lost Fifty Pounds Using This Product!!!”** By: [Gary Beaver](#)
- **Why Should Cash-Strapped Start-Up Companies Spend Money on IP Attorneys?** By: [Todd Serbin](#)

COURT APPLIES “REASONABLENESS” STANDARD TO INVENTION ASSIGNMENT

By: [Corky Klett](#)

In South Carolina, restrictive covenants not to compete are generally disfavored and strictly construed against employers. To be enforceable, covenants not to compete must be necessary to protect the legitimate interests of an employer, reasonably limited in time and place, not unduly harsh in curtailing a former employee’s ability to earn a livelihood, reasonable from a public policy standpoint, and supported by valuable consideration.

Over ten (10) years ago, South Carolina courts began to subject employee confidentiality agreements to the same strict scrutiny. Because a covenant not to divulge a former employer’s trade secrets had the same practical effect as a covenant not to compete, such confidentiality provisions are enforceable only if they comply with the requirements of enforceable non-compete agreements.

For the first time, the South Carolina Court of Appeals subjected an inventions assignment clause in an employment agreement to the standards of a covenant not to compete in *Milliken & Company v. Morin*, decided in August 2009. In finding this agreement valid, the court focused on the fact that the provision was limited to inventions conceived by the former employee during his employment. Further,

the assignment was restricted to inventions related to employer’s business or research, or created using employer’s resources. Lastly, the provision was limited to subject matter that former employee worked on or had knowledge of during his employment with employer.

This decision should caution employers to carefully review all aspects of agreements with their employees, and that this heightened scrutiny does not only apply to non-compete provisions.

“I LOST FIFTY POUNDS USING THIS PRODUCT!!!”

By: [Gary Beaver](#)

The Federal Trade Commission (“FTC”) made significant changes to its guidelines governing endorsements and testimonials in advertisements (the “Guidelines”). The changes took effect on December 1, 2009, and increase the possibility of liability under the FTC Act. The Guidelines had last been changed in 1980. The Guidelines are not binding law but they are administrative interpretations which are given great weight in enforcing the FTC Act against deceptive advertising.

The most significant change in the Guidelines is the removal of the 29-year-old safe harbor that allowed a testimonial to describe unusual results from use of a product or services so long as the testimonial included a disclaimer such as “results not typical.” Now, the advertiser must have proof that the experience or results described in the ad is “representative of what consumers will generally achieve” or the ad must “disclose the generally expected performance in the depicted circumstances.” As you can imagine, this is important in advertisements about products promising weight loss and changes in physical fitness or medical condition. For example, if the endorser lost 50 pounds in 6 months while

using a weight-loss product but also engaged in hours of daily exercise and a restricted diet such as eating no carbohydrates or eating only raw vegetables, then the ad must disclose the other conditions concerning exercise and diet that were peculiar to the unusual weight-loss described in the endorsement. If the typical weight-loss for a 6-month period is not 50 pounds, then the ad should disclose the typical weight-loss (e.g., “most women who use Brand X lose 15 pounds”).

Another important change is that the Guidelines now make it explicit that an endorser can be held liable along with the advertiser for making false statements or for failing to disclose material connections between the advertiser and the endorser. The Guidelines always allowed the FTC to prosecute both advertiser and endorser but did not specifically spell that out until now. Perhaps this will reduce the high volume of influenced, non-objective, and likely biased endorsing one can find all over the Web. The requirement for disclosing material connections pre-existed the changes and is important in the context of e-commerce where many sellers are improperly using endorsements by friends, family members, and employees or by someone receiving free products from the advertiser without disclosing those connections. The failure to disclose material connections is a long-standing one and the FTC and the states, under the mini-FTC Acts, enforce the restriction. In 2002, Sony entered into a settlement with the State of Connecticut for using fake “person on the street” interviews in which Sony employees pretended to be moviegoers praising Sony movies that they claimed to have just viewed.

The Guidelines have long included examples after each guideline to describe how each guideline is applied in specific scenarios. The revised Guidelines provide many new examples. Some are directed at endorsements or testimonials using newer means by which advertisers reach target consumers, including infomercials, online blogs, blog advertising services, television talk show interviews, and online message boards.

The examples show how the FTC enforces the Guidelines. The new examples

appear to be directed at deceptions that the FTC frequently sees. For example, an expert endorsement must be supported by an actual exercise of the expert’s expertise in evaluating the product and must include an examination or test of the product at least as extensive as someone with the same level of expertise would normally need to conduct to support the conclusion in the endorsement. The FTC added an example of a medical doctor stating in an ad for a drug that it will safely reduce the user’s cholesterol by 50 points. If the doctor only reviewed letters from satisfied users or results of a study on rodents, not humans, the endorsement is likely deceptive because other experts would not normally consider such evidence sufficient to support the conclusion in the endorsement. The FTC has not added a requirement for peer-reviewed evidence or studies to support a conclusion but the example the FTC added certainly pushes the acceptable expert advertising in that direction.

Other examples are directed at newer advertising forums. For example, if a famous entertainer or athlete touts a product or service on their online blog or during a TV interview and is being paid by the product maker or service provider to do so, the endorser must disclose that payment because consumers would likely not realize that the endorser has been paid to make an endorsement in that manner.

A guideline that has not changed but of which you should remain aware is the requirement that the endorser must be a “bona fide” user of the product endorsed and must continue to be a “bona fide” user of the product for as long as the ad runs. If the celebrity stops using the product, the advertiser must stop using the endorsement.

WHY SHOULD CASH-STRAPPED START-UP COMPANIES SPEND MONEY ON IP ATTORNEYS?

By: [Todd Serbin](#)

The decision to start a new company is a brave one considering the uncertainty of success even in the best of economic

times. One thing that is more certain, however, is the relationship between company value and the intellectual property owned by that company. According to the October 22, 2005 issue of *The Economist*, up to 75% of the value of US public companies was based on their intellectual property (up from 40% in 1980). It is estimated that Microsoft's intellectual property including the trademark in its brand, copyrights in its software, and its patent portfolio is responsible for over 99% of its \$274 billion value, and that Coca-Cola's combined brands alone are worth an astounding \$67 billion (as of 2008), more than half of its \$133 billion market value. Industry leader IBM receives an annual revenue stream of approximately \$1 billion in licensing fees from the 40,000 patents it owns worldwide.

In many instances, nearly 100% of a start-up company's value is based on its intellectual property since these companies lack the material assets of more well-established companies. Clearly, intellectual property is important to a well-established company, but why is having a well-regarded and commercially effective intellectual property portfolio disproportionately crucial for a start-up company?

First, it goes without saying that if a business can acquire quality patent protection for its core technologies, second-comers and competitors will have a harder time breaking into the market with the same or a functionally or commercially equivalent technology.

Other reasons for building a robust intellectual property portfolio include the opportunity for licensing and/or cross-licensing patented technology. Licensing technology to others early on provides the start-up business an opportunity to earn income without the expense of actually commercializing the product, allowing the business to maintain a focus on innovation. Cross-licensing becomes important because, in a sense, businesses and their competitors are involved in an arm's race trying to protect as much technology as possible while at the same time preventing others from capturing it. Eventually, as the field gets populated even direct competitors need to cross-license from each other in

order to do business. However, the very nature of an arm's race requires sustained effort in portfolio development from all parties lest one side realize a strategic advantage over the others in the race.

While many startups commence operations with funds from the founders themselves and/or angel investors, at some point additional capital is needed to grow the business. Attracting investors becomes a major focus for start-ups as the fruits of the initial funding rounds become depleted. VCs and other middle financing stage investors have nearly infinite choices for pledging their money, studies have found that an average VC fund will invest in one in approximately four hundred opportunities presented to it; therefore, VCs look for ways to distinguish one investment opportunity from another. One factor which is universally evaluated is the status of the intellectual property portfolio, the patent portfolio especially. Naturally, companies with stronger intellectual property portfolios stand a higher chance of receiving funding from investors.

One common concern of potential investors about start-ups is will the business' technologies infringe already existing and patented technologies, thereby landing the company in court and frittering away critical financial resources on litigation and lawyer's fees. A study published by the University of Munich in early 2009 indicated that a strong intellectual property portfolio is useful for signaling to potential investors that the business takes its intellectual property seriously and therefore implies that due diligence has been performed with respect to these already existing and patented technologies, putting the potential investors' minds at ease.

Often overlooked by entrepreneurs starting new businesses is plotting an exit strategy for eventually transitioning ownership and/or operations of the start-up to others. Conventional devices for executing an exit strategy include outright sale, merger and initial public stock offerings ("IPO"). In most instances it is in the entrepreneur's best interests to maximize the value of the business prior to the transition. As has been made eminently clear by the statistics presented at the

beginning of this article, one of the best ways to maximize the value of the business is to have a high quality and robust intellectual property portfolio.

For at least the reasons discussed above, a strategically planned, high quality patent portfolio is a hallmark of a successful start-up company. The bottom line is that while great time, effort and expense should be invested in research and development, equally as much time, effort and expense should be dedicated to protecting, at the very least, the core technologies which emerge from that research and development. It is almost a certainty that the resulting intellectual property portfolio will be the company's greatest asset.

Intellectual property attorneys can not only provide the expertise necessary for preparing, filing and prosecuting a company's patent, trademark and copyright applications, but also for the management, strategic planning, and augmenting of the portfolio.

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N|P Intellectual Property Group

CHARLESTON

843.577.9440

Townsend M. Belser, Jr.*
 Angelica M. Colwell*
 J. David Hawkins
 Cherie Blackburn

COLUMBIA

803.771.8900

Mark L. Bender
 David Black
 William Y. Klett III*
 Daniel Leonardi*
 Michael A. Mann*
 Marcus A. Manos
 Todd Serbin*
 Val H. Stieglitz
 Marguerite S. Willis

GREENVILLE

864.370.2211

Amy Allen Hinson*
 Sara Centioni-Kanos*
 Joseph T. Guy, Ph.D**
 John B. Hardaway III*
 John Perkins*

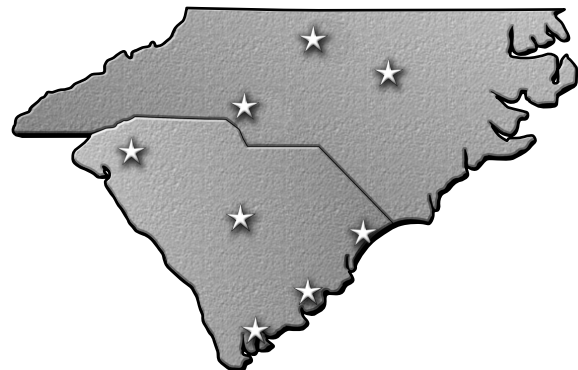
GREENSBORO

336.373.1600

Gary L. Beaver
 Jeff Reichard*

*Registered Patent Attorney
 **Patent Agent

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