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Avoiding Pitfalls: IP “Dos and Don’ts” for High-Tech Start Ups

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Starting a high-tech company is a difficult, exhausting, and thrilling endeavor – one in which founders will face seemingly endless challenges, deadlines, and make-or-break decisions. From a venture’s inception, founders face numerous decisions that if not thoughtfully considered can result in significant legal and financial risk. This risk must not extend to a tech company’s intellectual property, which is often the company’s crown jewels. The consequences of a tech company’s failure to plan and execute a thoughtful IP strategy may not present themselves until financing or acquisition diligence is conducted. By then, it is often too late to correct such issues.

While some pitfalls may be unpredictable, founders can take actions to minimize the potential for such hazards that may otherwise undermine their goals. Whether the company’s critical IP constitutes patents, trademarks, trade secrets, or copyrightable material, including software, a comprehensive IP strategy that is well-thought-out, crafted and executed in advance can help position the company to best minimize IP risks. Here we will discuss a few straightforward and easy-to-execute tips to help you avoid major IP pitfalls as your company grows—and succeeds.

It Is Never Too Early to Form the Company and Get IP Assignments

Make sure everyone (individual contributors, executives, founders, sales personnel - everyone) signs comprehensive invention/IP assignments – with present tense assignment language – to assign all relevant IP rights to the company. When raising capital, founders must remember that investors are investing in the company, not the individuals—including the founders. Make sure that the company owns all of the rights. In the context of patents, in the absence of a common assignee/owner of a patent, each inventor has a right to the patent, meaning that each inventor can practice – or sell/license – rights in and to the patents. This means that, absent an assignment to the company, a co-inventor could license or sell patent rights to a competitor. This can kill a deal, particularly if an inventor has already left the company, making curing the issue more difficult, or impossible. This issue can also rear its head in the context of software development. Creators of works are by default the owner of a copyright. Do not rely on the work-for-hire doctrine for protection and get explicit assignments as a rule.

Work Cautiously with Third Parties; Your NDA Is Not Enough

Make sure you have proper agreements that define in writing how any developed IP is owned/shared between the parties before commencing joint technical work with third parties, particularly large, sophisticated companies. Establishing such agreements can often be difficult for start-ups and cause delays, but foregoing such formal agreements can precipitate catastrophic consequences including not owning or having proper license to technology built into your products. And, generally speaking, an NDA is not enough to guard against these potential problems. NDA's protect the exchange of business information that can pave the way for further in-depth technical discussions, and offer only potential post-hoc relief. In other words, after you have already been ripped off, maybe you can sue and, if you are incredibly fortunate with your facts and evidence and you can afford such a suit, you can win. A more substantive agreement, such as a services agreement, joint development agreement, or comparable arrangement, must be in place to govern ownership and the license of any resulting IP. These types of agreements offer stronger rights protection.

Be Mindful of Open Source Software

Particularly if your business or products are rooted in software (either distributed or hosted), you should have a firm understanding of any open source software (OSS) used in or by your products. Many developers like to utilize OSS because OSS can effectively streamline many common development tasks. But beware: some OSS licenses require that ostensibly proprietary company software based on the OSS be licensed to the public under the same open source license (the so-called "copyleft" issue). This can complicate finance and M&A activity, whereby a start-up is unaware of the open source/copyleft nature of its own products before they are revealed in transactional diligence, which can cause dramatic valuation issues. In extreme cases, the improper use of OSS can destroy the value of a company. The best way to stay ahead of OSS concerns is to: 1) have an established OSS policy that your developers know and follow, and 2) actively track and document the open source libraries used in your products, and the licenses governing such use.

Don't Forget the Non-Technology IP

Be mindful of trademarks and copyrights. File early for basic trademark protection for your more important trade names, as well as reserving social media accounts and domain names. Even if you lack resources to perform exhaustive trademark clearance assessments, an upfront investment into some clearance diligence is a critical part of choosing a name/brand. Even simple searches can give you a basic idea of what names others may already be using in your space. You do not want to find out at the 11th hour before launch, or, even worse, after launch, that a competitor or other third party already owns the desired trademarks, domain(s), and social media accounts and will attempt to prevent you from using your name—an entirely avoidable existential threat to your company.

Have A Few Good Form Documents

There is no one-size-fits-all solution or a substitute for sound legal advice on any particular situation, but a few key robust form documents can provide a baseline level of protection as you start engaging external partners and providers. Start with a good baseline template NDA, contractor/consultant agreement, and employee agreement (all with present tense assignment language) to avoid significant potential issues down the line.

File Provisional Patent Applications As You Go

A provisional patent application, as opposed to a non-provisional application (which is sometimes referred to as a "utility application"), is subject to few formal requirements and is not examined by the US Patent Office. Essentially, a provisional application is a one-year placeholder that permits an inventor to obtain a priority filing date with the US Patent Office (to establish your "place in line" against competitors and other inventors). In the one-year period after filing the provisional, inventors can improve or optimize their inventions, or secure investors or funding to cover the more expensive costs and filing fees associated with non-provisional patent applications. Because of all of this, provisional applications (when guided by counsel) are a cost-effective way for cash-strapped high-tech companies (as well as large successful companies) to preserve patent rights while determining whether they have something valuable and patentable and/or while finding outside resources to cover the costs of building a robust patent portfolio.

Companies can hold their filing time and incrementally protect their IP by regularly filing provisional patent applications covering ongoing technical developments. Many laws and rules cause an inadvertent surrender of patent rights based on a party's prior public disclosure of an invention. These public disclosures include public use, offer for sale, presentation at a trade show, disclosure at a conference, and other public discussions of the company's inventions. Public use, if done off the cuff, can lead to frantic (and sometimes unsuccessful) last-minute patent drafting and filing efforts to best avoid such surrender. But rushed patent applications can create their own issues, risks, and downstream challenges – as they almost never match the coverage of a patent application drafted with sufficient time for review and revision. Companies can avoid the urgent patent filing by routinely filing provisional applications at certain product roadmap milestones (as part of a comprehensive patent strategy with counsel), thereby helping the company stay ahead of these issues. The company can always decide not to pursue utility applications after a provisional has been filed.

One important issue to keep in mind: Although a provisional application need not meet all of the formal requirements of a non-provisional application, the provisional application must still include a sufficient technical description in order to establish an enforceable priority date for the invention. This is especially critical for an IP strategy that involves international patent protection because other countries do not distinguish between a provisional and non-provisional application when determining if the contents of the application are entitled to its original filing date. Ideally, a newly filed provisional application will include a thorough description of how the technology works, including extensive diagrams and flowcharts, just as would be included in a non-provisional application. A good cost-effective approach is filing a first provisional application with substantial technical background about your venture's core technology. This content can be re-used in later provisional applications, each subsequent application adding in details about the next improvement.

Summary

These Dos and Don'ts are not 100% comprehensive, and every company's situation is unique such that tailored advice from qualified legal counsel is beneficial for all tech startups. Yet instituting the types of controls outlined above, in advance, can preemptively address many potential pitfalls that may appear down the road. Avoiding pitfalls entirely is a far better strategy than managing pitfalls.