

Protecting Intellectual Property: A Smart Strategy for Tech Startups

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Disclaimer: This a general guide to help startup founders and investors protect intellectual property (IP) assets. It is not intended as legal advice to resolve specific IP issues that may arise within a new venture.

Personal Resources

Your startup may be so new it doesn't have an office yet. You and your partners may be holding down day jobs, and doing startup work evenings and weekends. If this describes how your startup is currently operating, there's one important thing to remember. Make sure you and your partners use only personal resources, not employer resources, to do work for the startup. This helps keep all underlying IP assets untainted right from the start. This includes workplace, work hours, computers, Web, email, phones, and other office equipment.

Employment Agreements

It's also a good idea to review any employment agreements staff may have with existing day job employers for provisions regarding assignment of IP or non-compete restrictions. In some cases, depending on the provisions, if a startup employee is working in a tech space similar to his or her day job employer, the day job employer might claim rights to the startup employee's IP, even if that work was performed on the startup employee's own time and equipment, because the type of work falls within the scope of the day job.

Early Disclosure

Startup members should disclose their startup involvement if their daytime employer is in a similar industry or tech space, and if the employer generates new IP as part of normal business activity. They should understand their employer's policy, and their employment agreement as well. Early disclosure, in most cases, does not mean that proprietary or confidential information will have to be divulged. Usually it won't. It does put a hold on further investment and development, if a conflict arises that can't be resolved.

And it allows for the longer process needed when it comes to larger companies. Also it provides time for both parties to explore new opportunities and business relationships.

Public Disclosure

When a startup team has created a breakthrough product or technology, the natural impulse is to go out and tell the whole world. Not a smart move if careless public disclosure results in loss of rights under patent law because the underlining IP was not protected before hand. The roads in Silicon Valley are littered with the debris of ventures whose founders rushed out to announce their innovative product before protection had been put in place. Another related step is requiring non-disclosure agreements (NDA's) from employees within the startup, and from contractors outside the operation as well. All members of the startup team should be clear on the importance of NDA's.

Point Person

Have one person in your venture to handle all matters related to IP. Usually this will be the founder or CEO. He or she does not need to be an IP expert, just knowledgeable about the firm's IP assets and their value to the business. The point person should have budget authority to make decisions on IP matters. He or she will need to meet with counsel, review options, consult with partners, and make decisions on the spot. This will simplify things for everyone involved, including partners and investors. And make possible the timely decision-making a dynamic startup needs.

Legal Advisor

An important part of this process is realistic budgeting for your legal advisor. This means ensuring that the value of IP assets is reflected in a real-world budget that allows your attorney to create solid, long-term protection. Talk to successful founders and investors and ask them which IP attorneys they recommend. Look for someone with relevant startup experience.

Talk with them about your startup, and the budget you have to work with. They'll offer options and recommendations. Discuss these with your partners and come to a decision. Go with the most experienced IP attorney you can find. The quality of his or her legal advice is crucial to the future success of your startup.

Valuable Assets

An IP asset can be a new technology, device, or underlying code. And, it can also be a customer list, data analytics or special expertise. In either case, assets first have to be identified. For a small startup with one new technology, this can be relatively simple. In the case of a larger venture working on a number of tech fronts, the process will be more involved. Now have your attorney create the best protection possible. This is usually done under patent law, but in some cases, it could be copyright, trademark or trade secret law. Your attorney will guide you through the process, and ensure that you have the multiple layers of protection needed, especially in the critical early stages of development.

Custom Protection

There is no one size fits all when it comes to IP asset protection. Your attorney will recommend the best fit between startup assets and the sections of IP law that offer the best protection. For a startup with just one new technology or device, this can be a simple process. For a venture developing multiple products for U.S. and foreign markets, it will be will be more complicated, more expensive and take longer to complete. One option is securing a provisional patent for one year. This can be a simple, cost-effective way to go. Also, early filing is more important now because of a recent change in patent law from first to invent to first to file. This places more importance on taking that important first step.

Contractor Agreements

If your startup hires an outside contractor, a software developer for example, to do vital work, it's important to have a contractor agreement in place covering ownership and use of IP related to work being done. The agreement should describe what the contractor can and cannot do with respect to core technology and product development. And it should assign any IP created by the outside contractor to the startup.

Ask your attorney to conduct a review of all agreements involving both staff and outside contractors to ensure solid IP protection is in place.

Joint Agreements

In the world of startups, new technology and devices are often created and shared by more than one person or entity. This kind of collaboration requires a joint ownership agreement describing ownership boundaries and responsibilities. An agreement of this type is especially important if the firm is being sold and IP assets transferred. Often it is included with other agreements listed under the operating terms and conditions of the LLC, corporation or partnership. A well-crafted agreement ensures clarity regarding IP rights, and offers protection for potentially valuable downstream licenses.

Start Now

Now that you know what to do, it's time to act. Meet with your staff, partners and investors, and share with them what you've learned. Discuss IP options available, forge a consensus and have key players sign off on the IP plan. Then take a moment to visualize how you will implement the plan step-by-step. Yes, it will mean legal expenses, extra hours, and an unforeseen obstacle or two. No problem—you're an entrepreneur. Solving problems is what you do all day long. Bottom line: What you've built needs to be protected. Now it's time to get it done.

Intellectual Property Resources

The Arizona Center for Innovation, www.azinnovation.com, offers non-legal advice on intellectual property at no charge as a service to tech entrepreneurs in southern Arizona. A partial list of law firms with intellectual property specialists in southern Arizona includes DeConcini McDonald Yetwin; Haralson, Miller, Pitt, Feldman; Harlow, Spanier, Heckeles; Hayes Soloway P.C.; Hecker & Muehlebach, PLLC; Heurlin Sherlock; Lewis & Roca LLP; Munger Chadwick; Nguyen & Tarbet, Quarles & Brady LLP; Snell & Wilmer and Williamson & Young.

Acknowledgments: 1. *Seven Sins—IP Mistakes Technology Startups Should Avoid*, Rajiv Patel, Fenwick & West LLP, 2. *Resources for Industry, Agreements, Licensing and Technology*, Stanford University, Office of Technology Licensing, September 2012. 3. *Non-Legal IP Advice for Startups*, Joanne MacMaster, Arizona Center for Innovation, July 2013.

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