Seven Sins—Intellectual Property Mistakes Start-Up Technology Companies Should Avoid

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The start-up company often is an exciting and fast moving entity. However, without attention to detail involving intellectual property encompassed within the company product and/or service, the time, effort and sweat equity invested in getting that product and/or service to market can slow down, or even halt, company growth. This article looks at seven intellectual property mistakes start-up companies make and tips to navigate and address the issues to help ensure a solid foundation for long term growth.

1. Contaminating intellectual property at origination

This mistake, although unintended, can be very costly for the company just starting up. The mistake often takes the form of incorrectly presuming that originating the idea means owning it. However, if the idea was originated or worked on in the course of working at a prior employer, the prior employer could potentially assert rights to the intellectual property. Such claim could originate from deceivingly harmless activities such as use of an employer fax or photocopier; it may also occur from using the employer computer to access a personal email account.

TIP: Do not use your employer resources when working on your new idea. It is best to work on such ideas off hours, at your own location, and on your own resources, *e.g.*, computer, phone, fax, photocopier, etc. Also, if the new endeavor does not relate to the scope of your responsibilities at your current employer, such risks are further reduced.

2. Not securing rights from contracted entities

Technology development today often is not undertaken by a single entity. A technology developer may rely upon entities such as contractors or outsourced providers for their development activities. However, many start ups proceed with development by a contractor or outsourced provider without having an agreement to address the ownership of intellectual property rights. Without such agreement in place technology developed by the contractor or outsourced provider may result in disputes over ownership and subsequent uses of the developed technology and corresponding intellectual property.

TIP: Prior to beginning work with contracted or outsourced entities make sure to have a written agreement that clearly articulates ownership and use of created intellectual property. The agreement may include either a license to or an assignment of intellectual property rights arising from any development work undertaken by the contracted or outsource entities. Where work has already begun without an agreement, strong consideration should be given to curtail further work until current intellectual property rights issues are resolved and a written agreement is in place that clearly sets forth licensing and/or assignment of subsequently created intellectual property rights.

3. Agreeing to joint ownership of intellectual property rights without an agreement

When acquiring or developing technology an issue may arise as to whether intellectual property was jointly developed. In such situations a company may decide that it would be least costly to simply allow joint ownership of the intellectual property between itself and the other developing entity. However, such approach potentially may compromise value of the intellectual property and possibly the company itself. With the intellectual property jointly owned, problems that may arise include, for example, proving competitors potential access to that intellectual property through the other joint owner or may potentially include having to provide an accounting of certain intellectual property rights to the other joint owner. In some instances, joint ownership of intellectual property ultimately may be the equitable outcome. Nevertheless, even in those instances true joint ownership may result in problems, for example, responsibilities to maintain intellectual property rights or appropriately set boundaries on what each party may do with their portion of the intellectual property rights.

TIP: When technology is begin acquired or developed in which your company may jointly own intellectual property rights with one or more other entities, have an agreement in place regarding ownership and responsibilities of the joint owners. The written agreement should clearly articulate licensing and/or ownership rights and, accordingly, obligations to ensure appropriate transfer of the agreed upon intellectual property rights. Where joint ownership is determined to be the equitable outcome, the entities should have a written agreement that describes the responsibilities of each entity to maintain the intellectual property rights and what each party is permitted to do or not do with their portion of the intellectual property rights. For example, the parties may agree to have one party be the owner of the intellectual property rights, articulate responsibilities to maintain those rights, and obligations of each party with respect to further downstream licenses of the intellectual property rights.

4. Publicly disclosing intellectual property before deciding and executing on a strategy

New companies are understandably eager to publicly announce their new idea to others. Without proper advanced planning, the public announcement may adversely affect the ability to appropriately secure certain intellectual property rights. For example, public disclosure of confidential information may result in a loss of trade secret rights. In addition, public disclosure of inventions may result in a loss of patent rights outside the U.S. and potentially could compromise patent rights in the U.S.

TIP: Inventory your technology and particular form of intellectual property available for the technology before making public disclosures. Thereafter determine the impact of public disclosure on the intellectual property right and follow through on securing rights in advance of the public disclosure.

5. Relying only on one type of intellectual property for protection

Intellectual property protection can take different forms, the most common being patent, trade secret, copyright, and trademark. Protection of technology is not limited to any one of these forms of intellectual property protection. In fact relying on only one form of intellectual property protection could be insufficient in completely protecting a developed technology. For example, software can be protected not only by copyright, but also by patent, trade secret and know-how.

TIP: Have a holistic approach to your intellectual property strategy. Evaluate your technology to determine all the types of intellectual property protection that may be available to protect it. Thereafter, critically consider each form to determine greatest value in terms of length of protection and strength of protection available from the type of intellectual property form. Thereafter, proceed with developing and executing a plan to secure protection using each of the identified intellectual property protection mechanisms under which protection was deemed to add value.

6. Improperly emphasizing cost of securing intellectual property protection

Cost is, and should be, a concern to ensure long term financial health of a company. However, cost often does not get untangled from what should perhaps be a value analysis. Attempting to secure intellectual property at a lowest possible cost may actually provide the least value. Low cost approaches may mask the harsh reality that the intellectual property for which protection is sought ultimately may not come to fruition due to deficiencies in the original work product created to secure the intellectual property right. Hence, the end result is ultimately having no protection of intellectual property in exchange for what appeared to be an inexpensive route to try to secure that protection.

TIP: Shift the focus away from pure cost and instead focus on value. One suggestion is to consider a realistic overall budget to invest in an intellectual property portfolio. Using the budget as a guidepost conduct a critical review with an experienced intellectual property attorney to strategically evaluate what intellectual property protection investment may provide the greatest returns.

7. Not investing sufficient resources to secure intellectual property protection

Many companies find that they are invigorated for the initial exercise of pursuing an intellectual property strategy. However, as time continues on the excitation wears off. Responding to inquiries or conducting follow up on intellectual property issues takes a back seat to other matters and may also be completely ignored. Over time this causes numerous problems that include blown budgets, potential loss of securing intellectual property rights, and missed opportunities to further develop an intellectual property portfolio.

TIP: Have someone within the company take the lead as being the intellectual property interface with intellectual property counsel. Ideally, the person should have an interest in intellectual property (although need not be a specialist), a solid understanding of the business and industry that the company is in and/or planning to be in, and the authority from management to make decisions. A person having this diverse background and empowerment will help ensure that intellectual property decisions are made in a proper business context and in an efficient manner, thereby providing the company with potentially greatest value.

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