Intellectual Property Essentials for Startups

Which types of intellectual property (IP) should a startup be aware of?

Many entrepreneurs think only about patents (Title 35, United States Code) because of the power that they confer. The owner of a patent has a right to exclude others from making, using, selling, offering for sale or importing the claimed invention, generally for a period of 20 years. But, depending on the company's business model, other types of IP can be equally or even more important.

Copyrights (Title 17, United States Code) protect original works of authorship. The owner of a copyright has the exclusive rights to reproduce the copyrighted work, prepare derivative works, distribute copies or phonorecords of the work, and perform or display the work publicly.

A trademark or servicemark (Title 15, Chapter 22, United States Code) is a word, phrase, symbol or design, or a combination of words, phrases, symbols or designs, that identifies and distinguishes the source of goods (trademark) or services (servicemark). The owner of a trademark or servicemark has the right to prevent others from using a confusingly similar mark.

A trade secret (s*ee, e.g.,* the Uniform Trade Secrets Act) is information that that derives value from not being generally known and is subject to reasonable efforts to maintain secrecy. By protecting a trade secret, its owner can maintain a competitive advantage over other companies in its industry.

Does our company own all the IP that employees create?

Not necessarily – it depends on which types of IP your employees are creating:

- Patents – Generally, but subject to certain exceptions, companies do not own patentable inventions that employees develop on the job unless there is an agreement by which the employee assigns the invention to the company. (*See, e.g.,* 35 U.S.C Section 102.)
- Copyrights – In the case of a work prepared by an employee within the scope of his or her employment, the employer is considered the author (17 U.S.C. Section 201[b]) and, thus, owns the copyright.
- Trademarks – Because ownership of a mark flows from use of the mark, and the mark is used by the employer, the mark will be owned by the employer.
- Trade secrets – The employer generally owns trade secrets.

To make sure that it owns all employee-created IP, a prudent employer will have each employee sign a proprietary information and invention assignment agreement. The agreement requires that the employee:

- Document inventions, assign all rights to the employer, and assist the employer in perfecting those rights.
- Maintain employer and third-party information in confidence.
- Not disclose former employers' confidential information to the employer.

However, employers in certain states need to consider limitations on what they can require employees to assign. For example, California Labor Code Section 2870(a) precludes assignment of certain inventions developed on the employee's own time without using the employer's equipment, supplies, facilities or trade secrets.

How can we be sure to own IP created by independent contractors?

In an effort to control costs, startups typically minimize the number of employees and engage independent contractors for product development and other tasks.

However, unless it has a properly-drafted agreement in place with the contractor, the company likely will find that it has even fewer rights to the contractor's work product than it has in the employee situation described above! Particularly as regards patents and copyrights, absent an agreement to the contrary, the independent contractor typically will own the work product, and the company will merely have a license to use it.

A prudent company, thus, will make sure that there is a written agreement with each contractor that gives the company all rights to work product; requires the contractor to help perfect those rights; specifies confidentiality obligations; and requires that the contractor indemnify the company against third-party IP infringement claims.

Are there special considerations if the contractor is located overseas?

Yes. As described above, startups are major consumers of independent-contractor services, and in some cases those services are provided by overseas companies.

There are significant risks in putting IP in the hands of overseas suppliers. For example, China is notorious for stealing IP and for having weak laws to protect IP owners. And while India's IP laws are well within the mainstream, a lawsuit to enforce IP rights might last five or ten years before any remedy is available.

As a result, the most prudent approach is to send overseas only IP that your company can afford to have stolen. If you need an independent contractor that will create or use your most critical IP, choose a domestic company.

Which steps should we take to protect trade secrets?

One of the best examples of a trade secret is the formula for Coca Cola. By revealing that formula to only a small number of people and requiring that they keep that formula in confidence, the company has maintained a legally-enforceable competitive advantage since 1886.

All companies (not just startups) need to:

- Identify company information that constitutes trade secrets.
- Ensure that the information is recorded, filed away and secured against unauthorized access.
- Enter into appropriate confidentiality agreements with all employees and third parties who will have access to those trade secrets.

It is pretty easy to register a copyright online; where might I go wrong?

To save money, entrepreneurs sometimes file their own copyright registrations but make a mistake in identifying the owner of the copyright. Here are some simple rules that will help you get pointed in the right direction (assuming that you actually own the copyright – please see discussion above):

- If you are a sole proprietor using a fictitious business name, use your name rather than the fictitious name.

- If you have established a separate legal entity (typically a corporation or a limited liability company), use its correct name.
- If you are not sure about the correct name of your legal entity, ask your lawyer, or go to the appropriate Secretary of State website. (A Google search for name of the state and the words "search" and "business" usually will point to the right website.)

It is pretty easy to register a trademark online; where might I go wrong?

Aside from identifying the owner of the trademark properly (see discussion above), you need to:

- Select the proper class or classes of goods (trademarks) and/or services (servicemarks) to which the mark will apply
- Decide whether to register a standard character format mark or a styled (design) format mark
- Know whether the mark is already being used in interstate or international commerce (if not, an "intent to use" application must be filed)

You can find more information about these issues at www.uspto.gov/web/trademarks/workflow/start.htm.

A provisional patent application is inexpensive and can be filed quickly; are there any risks I should keep in mind?

Startup companies tend to like provisional patent applications because they are inexpensive and they allow the company to hold a filing date for a year – and delay paying for a non-provisional application – while raising funds and confirming that the invention is commercially viable.

However, the provisional filing date is valuable only to the extent that claims in the issued patent are supported by disclosure in the provisional patent application. If you file the provisional application before the scope of your invention is clear, you may find that the provisional was a waste of time and money because it did not disclose the correct claims.

Money is tight; can we use another company's form of agreement rather than paying to develop one of our own?

It is pretty tempting to use someone else's form of agreement from a transaction that you participated in, or that you found on the web, or that you bought from an online supplier. Sometimes that approach works satisfactorily. Sometimes, however, it creates problems; here are some real-life examples:

- A company copied another company's enterprise software license terms into an agreement for wireless-application software – even though the enterprise terms made no sense in the wireless industry. The results: Customer confusion, protracted negotiations, intense frustration, and delayed revenue recognition.
- A company that owned the patent on a consumer product bought a low-cost form of patent license agreement from an online vendor, intending to enter into a licensing agreement with another company to manufacture and sell the product. While the basic license provisions were adequate, the agreement failed to give the licensor any right to establish, monitor or address breaches of quality control standards – a critical omission, in this instance.
- In certain circumstances, the other company may seek to enforce its copyright to preclude your use of the agreement. *See, e.g., American Family Life Insurance Company of Columbus v. Assurant, Inc., et al.*, 2006 U.S. Dist. LEXIS 8781, 77 U.S.P.Q.2d 1901 (N.D. Ga., 2006)

If you can be sure that the agreement you want to use is thorough and up-to-date, and if there is not too much at stake in the transaction, then the risks inherent in using the agreement probably will be limited. However, if you do not know a lot about where the form of agreement came from, or if the transaction is important, then you probably should seek the advice of an expert in the field.

Open source software is hot; does it bring along any special dangers?

"Open source" refers to software that is licensed on terms that give users the freedom to run, copy, distribute, study, change and improve the software. As changes and improvements are contributed back to the open source community, the software is enhanced to everyone's benefit. Open source is contrasted with proprietary software, the source code for which is under the licensor's tight control.

One of the best-known open source licenses is the GNU General Public License, usually referred to as the "GPL" (www.gnu.org/copyleft/gpl.html). An extensive list of open source licenses is available at www.opensource.org/licenses.

During the past several years, commercial acceptance of open source software has skyrocketed. As a result, many software developers are trying to figure out how to incorporate open source software into their business models.

Because open source software often is provided at no charge, some developers think that they can do with it whatever they want – perhaps not recognizing that by incorporating open source into a company's proprietary product, under the applicable license they may have made the company's product open source, too! Accordingly, any company that is developing software needs to keep tight controls on whether, when and how open source is used.

The information in this article is not intended as legal advice. If you need legal advice on a matter, please contact an attorney directly.