

# High-touch Legal Services® for Startup and Early-stage Companies

## Top Ten Intellectual Property Mistakes of Startup Entrepreneurs

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Entrepreneurs – especially those who are just starting up – have their hands full. Intellectual property (IP) rarely escapes their attention. But even more rarely is IP treated as carefully as it should be. Here – not necessarily in order of importance – are the top ten IP mistakes that I have seen among startup entrepreneurs:

### 1 Failing to use employee invention agreements

Generally, but with 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. An invention assignment agreement can help the company by requiring that employees:

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

California employers need to consider, however, Labor Code Section 2870(a), which precludes assignment of certain inventions developed on the employee's own time without using the company's equipment, supplies, facilities or trade secrets.

### 2 Assuming that the company owns contractors' work product

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!

A prudent company will make sure that each contractor's agreement 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.

### 3 Using another company's license agreement

Trying to minimize legal expenses, a CEO copied provisions from another company's enterprise software license into his company's 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. The company would have been better off paying for the right agreement in the first place.

### 4 Thinking that patents are the only IP that matters

Patents are great: They let you stop others from making, using, selling, offering to sell or importing your invention. But other types of IP can be great, too. Among these are:

- Copyrights, which protect against unauthorized copying of creative works.
- Trade secrets, which provide a competitive advantage by virtue of their confidentiality.
- Trademarks and service marks, which identify the sources of goods and services.

### 5 Filing a for provisional patent before the scope of the invention is clear

Startup companies like provisional patents because they are inexpensive and allow the company to hold a filing date – and delay paying for a non-provisional patent – 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. If you file for the provisional before the scope of your

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invention is clear, you may find that the provisional was a waste of time and money.

## 6 Treating the federal government like non-governmental infringers

While a fundamental tenet of patent and copyright law is that a patent or copyright owner can enjoin infringement by other parties, there is a major loophole when the other party is the United States.

Under its eminent domain power, the U.S. can take private property for public use – but, as required by the Fifth Amendment to the U.S. Constitution, only if just compensation is paid. So if the government wants to use an invention that would infringe your patent, you cannot obtain an injunction to stop that use. Instead, you need to file a claim for payment with the appropriate government department. If you cannot reach a suitable agreement with that department, your only recourse will be to bring suit in the Court of Federal Claims in Washington, D.C.

## 7 Neglecting to identify and 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 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.

## 8 Believing that “open source” means “no restrictions”

During the past several years, commercial acceptance of open source software – which gives users the right to modify and redistribute source code – 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 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.

## 9 Giving the “family jewels” to an overseas supplier

Startups are major consumers of outsourced, and in some cases “offshored,” services. Entrepreneurs typically know about the risks of putting IP in the hands of overseas suppliers. For example, China is notorious for not respecting IP rights. And while India’s IP laws are well within the mainstream, a lawsuit to enforce those 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 outsource supplier to create or use your “family jewels,” choose a domestic supplier.

## 10 Registering the wrong entity as the owner of IP

More than once, I have seen entrepreneurs, file their own trademark or copyright registrations and make a mistake in identifying the owner of the IP.

If you are a sole proprietor, use your name rather than a fictitious business name. If you have established a separate legal entity, use its correct name. If you are not sure about that name, ask your lawyer or go to the appropriate Secretary of State website.

Any entrepreneur who can avoid these traps will go a long way toward establishing a solid IP foundation for business success.

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

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