

4 Types of IP Your Startup Must Protect

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Intellectual Property (IP) is often an early stage venture's most valuable asset. But who really "owns" the IP a startup uses? In many cases the answer isn't clear, and problems frequently aren't identified until an investor or acquisition partner starts due diligence. IP ownership problems can be easy to address at the outset by establishing the right procedures, but difficult (and expensive) to fix down the road. The first step is to recognize the four different kinds of IP, broadly categorized below, and the steps required to address ownership issues as to each. **1. Confidential Material**

Examples include your business plan, development plans, and new product or service ideas. Generally, people and businesses cannot own ideas or items like price or customer lists. A company can own the physical documents on which they are recorded, but the abstract idea or information is generally not legally considered "property" that a business can own. Still, you can protect yourself. There are at least two ways to prevent others from taking your ideas and using them for themselves. The first is to use non-disclosure agreements (NDAs). These are contracts under which you agree to disclose your secrets to someone who, in return, agrees to keep them private and not use them for their own purposes. NDAs are critical for startups, which must often disclose their valuable ideas to others early in their lifecycle. Startups should use NDAs religiously—with suppliers, customers, contractors, investors, employees, shareholders, and anyone else who receives your confidential information. The second way is to treat ideas as trade secrets. To be a "trade secret," information must meet two primary requirements. First, it must have economic value from not being known or

readily discovered. Second, it must be subject to reasonable efforts to maintain its secrecy. If you take reasonable precautions to protect such information, the law provides a remedy if someone “misappropriates” it. Key factors that demonstrate you’ve taken reasonable precautions often include (a) having agreements in place making clear that the company owns the trade secret information and preventing its unauthorized use or disclosure; and (b) having procedures to ensure your confidential information is treated with a level of care and respect commensurate with its value to your venture. **2. Inventions**

Inventions are more than ideas for new products, services, or ways of doing something. They must be “reduced to practiced,” meaning they must be fleshed out in enough detail that a typical person in your field could implement them without extensive testing and experimentation. Some inventions (e.g., Coca Cola’s formula) are maintained as trade secrets and protected in the same way as other confidential information (albeit with an even greater level of care). Others are protected through patents, which give the patent owner the right to prevent others from practicing the invention for a period of time without the owner’s consent. Inventions are generally owned by the person (or persons) who first conceived of them. Many business owners mistakenly believe that if their employee or contractor conceives an invention while working for the company, the company owns the invention. This is generally not true. In reality, the inventor owns the invention and the company merely has a right to use it. To own the invention, a company must have a written agreement in place with the inventor stating that any inventions developed will be owned by the company, and assigning rights in those inventions to the company. This is true whether the inventor is an employee, contractor, founder, or owner. Before beginning work, everyone involved in developing or refining IP should sign a written agreement that documents the understanding that all inventions will be owned by, and assigned to, the company. This is especially important given that key personnel sometimes leave the venture (voluntarily or otherwise) before a liquidity event. When that happens, it may be difficult, expensive, and/or impossible to get that person to retroactively assign their IP rights back to the company. It is much easier and cheaper to have good IP agreements in place at the start. **3.**

Works of Authorship

Works of authorship (“works”) include software code, website content, and marketing materials. Generally, works are owned by the author as of the moment they are created (written down or typed into a computer). But when the work is created by an employee within the scope of his or her duties, or in very limited circumstances, by a contractor with a special written agreement, the employer is deemed the “author” of the work from the outset. To avoid ownership problems related to works, ensure that you either (i) fit squarely into one of the exceptions under which the company is the author; or (ii) have a written agreement (yes, it must be written) assigning the rights to the company. Many startups mistakenly think their founders or contractors fit within the exception, only to later learn that some legal formality was missing, making the exception inapplicable. So, wise entrepreneurs always have written agreements (that include an assignment) with their employees, founders, and contractors, that clearly state the company owns all works. They don’t simply assume that the “work for hire” exception applies. Because many works incorporate third party materials, things can get even more complicated. For example, to get a jump start, a startup may use “open

source software” or a developer may use code she created for a previous project, refining it to work for the new company. This extremely common practice can make it very difficult to determine after the fact which parts of individual works are owned by the company, and which are merely licensed. This issue would take a series of articles to cover. Here, it suffices to say entrepreneurs must do their best to make sure they know whether any pre-existing or third party content was used to create their IP and, if so, where it came from and how it was used. **4. Brand**

Your brand (e.g., trademarks, domain names, social media identifiers, etc.) is how your customers know a product or service comes from your company, and not from your competitors. Brands are generally protected by trademark law and can be among the most valuable assets of a new venture. Conveniently, rights in a “trademark” run to the company by default, and not to any individual. So, in this case, founder, contractor, and employee agreements, while still important, are not quite as critical. However, you still must: (i) make sure your brand is distinctive enough that you can be its exclusive owner, (ii) be certain nobody else is already using anything confusingly similar to your unique brand, and (iii) be sure the company owns and controls all of the domain names and social media accounts that help your brand reach your customers. A detailed explanation of the steps needed to ensure your brand doesn’t run afoul of these requirements is beyond the scope of this summary. But the following broadly outlines the steps entrepreneurs must take: (a) choose your brand wisely and avoid generic terms for your products or services (e.g., use something distinctive like Apple did when it chose “Apple” for its computers, not something generic like “Steve’s Computers”); (b) do a trademark search before investing in your brand and, once you are clear, register your trademarks so others can’t free-ride on their popularity after you have made them valuable; and (c) ensure that all domain name registration and social media accounts are opened in the company’s name, not those of individuals, and that you have the login and password information for the registrar accounts that control those registrations. **Conclusion**

Ownership of IP, often a new venture’s most valuable asset, is unquestionably complicated. But if you start early, using good NDAs, founder agreements, services agreements, and the like, you can avoid expensive complications down the road. Recognizing the different kinds of IP and the ownership issues related to each is the first step.

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