

5 common IP traps startups should avoid

September 7th 2018 | Kirk Sigmon



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Startups can avoid or mitigate IP problems if they are wary of five common mistakes, says Kirk Sigmon of Banner & Witcoff.

Many startups are far too busy juggling business and technical concerns to even consider IP. This can be a mistake: it can cost you financing, empower your competition, and even get you sued. To stop that from happening to you, here are five common traps to avoid.

1. Not acquiring proper software licences

Starting a company is expensive, and sometimes corners have to be cut. Just don't cut one that'll easily get you sued: software licences.

Whether for an operating system, software, or an application programming interface, startups must be very careful to ensure that they have appropriate licences for all software tools they use.

Noncommercial licences (for example, Creative Commons' non-commercial licences) are generally off-limits to commercial startups. Academic licences are similarly off-limits in most cases. And, of course, software piracy of any kind is completely impermissible.

These sorts of mistakes are extremely common when employees bring their own devices. A college intern who brings their school laptop into work may inadvertently use academically-licensed software (eg, their school-licensed version of Microsoft Word) to do commercial work. That innocent mistake can violate the terms of their software licence and expose your startup to a lawsuit. You might even receive a nasty letter from the Business Software Alliance (BSA), a trade group that may sue you for damages that can go up to \$150,000 per copyright-protected product.

If you plan to be successful, you must ensure that your software licences are in order. Perform regular audits of all software licences on company computers and/or used by employees in their work. If you find that you've been unlawfully using software, purchase the necessary licence(s) immediately.

2. Talking and selling too much, patenting too little

It's tempting to brag about your ideas, particularly at trade shows where potential customers may be lurking, but doing so can cost you a valuable patent.

If you publicly disclose an invention (eg, by showing it off in public, writing about it online, or trying to sell it to a potential buyer), you start a one-year clock within which you must file a patent application in the US. In some countries, that disclosure could instantly prevent you from getting a patent at all. Problem is, you might not know the value of your ideas until years later, long after you've shouted them from the top of every mountain. And, if you don't patent your idea in time, your idea goes into the public domain.

Worse still, modern patent law arguably allows you to talk your way out of a patent within that year. Although it's OK to talk about ideas at a high level, details can give others ideas that become prior art against your invention.

Say, for example, you go to a trade show with a half-baked idea and a pocket full of business cards. You tell your half-baked idea to a potential customer, who comes up with a variant of your idea and publishes it in on their blog. Arguably, because the potential customer's idea is not the "same" idea but a "different" one, that potential customer's publication could potentially prevent you from getting a patent on your idea, or could invalidate your patented idea in court.

The best way to avoid this risk is to adopt a strong patenting policy within your startup. If you think an idea might merit a patent, speak to a patent attorney as soon as possible.

3. Forgetting IP when hiring contractors

It can be tempting to hire independent contractors to help you finish up major projects and meet deadlines—just make sure that those independent contractors don't walk away with your entire project.

Under US copyright law, an independent contractor has a copyright in their work unless, among other requirements, the independent contractor and their employer have a written agreement specifying that the independent contractor's work is a work made for hire. That independent contractor might thereby get a right to an entire work (even if they only contributed to a portion of it).

Assume, for example, that your smartphone app startup is in crunch time and you need to finish up your app before showing it to potential investors. You pay a good college friend some cash to quickly help out with various parts of the app. You don't make your good college friend sign a contract. The result? Your good college friend just potentially became a co-owner of your entire app, meaning that they could sell it or even hand it out for free without your permission. They might not be a good friend for much longer.

Perhaps obviously, the best way to avoid this circumstance is to make every independent contractor (and employee, for that matter) sign a contract explicitly stating that their work is made for hire and that all IP rights are transferred to your startup. While paperwork can get in the way of speed and flexibility, it is necessary to avoid your independent contractors walking away with your startup's future.

4. Accidental use of others' IP

You might be surprised to find out how many different things are subject to IP protection—don't let that surprise come from a lawsuit.

From blogs to video games, the possibility of inadvertently infringing others' IP is high. For example, in late 2017, AM General sued Activision Blizzard because the game "Call of Duty" features Humvee vehicles, which AM General has IP rights in. Similarly, Tesla engineers jokingly put an image of a farting unicorn in Tesla's vehicle operating system, although they had not acquired a licence to use the image. Both companies had good intentions (historical accuracy and humour) that landed them on the wrong side of IP disputes.

Such errors are most common with digital photographs. Many websites use stock photography that they do not have a right to use as, for example, images on their blogs. Photo agency Getty Images reportedly has a team of lawyers mass-mailing letters to demand cash settlements from those websites. Your startup definitely doesn't want to receive such a letter.

The best policy in these circumstances is to maintain strict IP discipline. Train employees on the basics of IP, and penalise misuse of IP severely. Don't mingle stuff you don't have a licence to use with your own creations. And, needless to say, if you have a concern, consult an IP attorney.

5. Crummy branding

Don't make branding harder than it already is: pick a unique name.

Accidentally picking a name or logo that is already trademarked can get you sued. For example, the creator of photo-sharing app "Ripple" found himself on the wrong end of a \$2.1 million trademark infringement lawsuit filed by Ripple Labs, a blockchain startup which owns the mark 'Ripple'. The creator of "Ripple" probably wishes he picked a different name for his app—his company (and his app) no longer exist.

Startups are uniquely positioned to avoid this sort of problem—after all, few startups have significant brand recognition. Extensively research and plan your startup's branding. Give yourself a wide berth around existing trademarks. Even quick internet searches can help you determine whether a name is probably being used. If you can afford it, hire a trademark attorney to perform a freedom-to-operate (FTO) search before you start any significant branding. The cost of an attorney for an FTO is small when compared to a million-dollar lawsuit and name change.

In conclusion: be careful

Many amazing startups have failed due to basic IP mistakes they could have prevented. Don't be like those startups: be smart about IP, be careful, and consult an attorney early and often.

Thanks to Scott Kelly, also of Banner & Witcoff, for his assistance with this article.

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