

IP Considerations When Forming a New Company

Forming a new company is very exciting, and the last thing that the founding members usually want to think about are legal issues. Unfortunately, tech-based companies often face difficult and complex IP / employment claims once they become successful (during financing, M&A, or IPO) that could have been avoided or minimized with some early forethought and actions. The following considerations may help minimize such risks if taken into account during the company's early stages.

1. Identify who (exactly) is contributing the IP, and what (exactly) they are contributing

The source of all IP on which the company is founded must be documented. Identify in writing who is contributing which ideas and other IP, and ensure all founders agree. If the company is also licensing IP from a third party, confirm the third party's documentation of its IP creation and ownership as well.

2. Categorize each component of founding IP

Each component of founding IP must be categorized into one of three areas: (1) developed and owned by a founder, (2) licensed or otherwise obtained from a third party, or (3) obtained from or otherwise available in the public domain.

3. Confirm the company's ownership of—or rights to use—all founding IP

For IP that the founders contribute, confirm that the company either has ownership of the IP through assignment or an exclusive license to the IP. For IP that is being licensed or otherwise obtained from a third party, confirm the company's right to use the IP through an exclusive license to the IP or IP purchase, if possible. If only a non-exclusive license is available, then recognize that the IP also may be used by a competitor. For IP obtained from the public domain, document the public source of the IP to prevent future claims that it was misappropriated. If the IP is open source software or other "open" IP that has specific licensing requirements (such as the General Public License, or GPL), then careful attention must be paid to the impact of using such open source IP. Knowledgeable outside counsel should be consulted.

4. Vet any potential third-party claims to the founding IP

For each source of IP that has been identified, vet any potential third-party claims to the IP. The most common sources of third-party claims are prior employers, investors, or collaborators. This may be an uncomfortable topic for the founders, and it is often easier for counsel to vet these issues with the founders individually. To the extent that potential third-party contributors or owners are identified, steps must be taken to obtain full ownership and/or mitigate any future claims (such as sending a letter confirming the difference between the IP belonging to the third party and the IP that will be used by the company).

5. Search and return

All founders should search for any confidential information belonging to previous employers or other third parties, and return all materials found or delete/destroy any such information (for example, if included in emails, texts, or other electronic media that is difficult to "return" to the prior owner). Document the return or destruction. This step will allow the company to prove it was founded on a clean state, and not based in any way on IP belonging to a founder's prior employer.

6. Patent applications

Securing patent applications for the founding IP is a smart step for any new company, but be mindful of two potential sources of future IP claims. First, make sure that the patent applications are free of IP and nomenclature that is similar to that of any previous employer. Even if the technology is different, similar nomenclature may make it appear to a judge or jury that the patent application claims IP that was derived from the

previous employer. Second, make sure that the patent application does not broadly claim IP that gives a third party an opportunity to allege that she contributed to the patented invention. A contributor of even one element of one claim may be entitled to co-inventor status, and joint owner of the entire issued patent.

7. Use new nomenclature in company documents and source code

Be careful not to use nomenclature that is similar to that of previous employers in product documents, marketing literature, and source code (e.g., variable names). Similar nomenclature will be the first thing that opposing counsel looks for in any IP-related litigation, and it can look bad to an unsophisticated jury even if the technology is quite different.

8. Document Independent/internal development

Technology developers should keep careful notebooks or other records of their work, so that the company can prove independent development if challenged in a lawsuit. Early source code must be maintained in a repository with version control. Even non-technical founders and employees, especially in sales, must be advised to keep notes and records of the source of any confidential information that they use in the course of their work, such as customer lists.

9. Employee / independent contractor agreements

All employees, and especially independent contractors, must sign formal agreements properly assigning all IP rights to the company, and also agreeing to keep the company's IP confidential. These agreements must be in place as soon as possible, prior to inventive work on behalf of the company. Some states have specific language that must be used for invention assignments to be effective, so consult with counsel on the wording.

10. Non-disclosure agreements

Never discuss the company's IP, trade secrets, or confidential information with a third party without executing a formal non-disclosure agreement. Often VCs and other investors will be reluctant to sign such agreements, so work with counsel on the proper level of detail that can be shared without a non-disclosure agreement.

11. Naming / Branding

Selecting a company name and product names should take into account existing trademark and tradename searches, which are relatively inexpensive to commission. Nothing slows a new company down more than expensive trademark disputes, which can be easily avoided if you do your homework first.

For more information, please contact:



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