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PERSPECTIVE

Startups need to start protecting IP from the start

By Richard E. Neff

These days, quite a few startups focus on creating apps for Apple's App Store as well as the Android platform. Others are ecommerce sites. At any rate, most inventions, or apps and software, are best protected by patent or copyright, or both. Unfortunately, cash-strapped startups often defer protecting their putative crown jewels. They are always focused on the corporate structure and investor documents, but rarely on the need to protect their intellectual property right away.

Patents. If the startup is based on an invention, an early attempt should be made to apply for patent protection, even though applying and prosecuting the patent may cost $10,000 to $20,000 or more. Patents have become harder to obtain for a variety of reasons, including the higher threshold applied to business method patent protection because of *In re Bilski*, 545 F.3d 943 (Fed. Cir. 2008). Patent protection gives a temporary monopoly for 20 years from applying, to enable the patent holder to build value in the invention and protect it from copycats. If a startup cannot afford the cost of a patent application at the outset, a provisional patent application serves as a placeholder provided that the patent is applied for within 12 months.

Copyright. Apps and software typically are protected by copyright, as is most content. It is easy to secure copyright protection for apps or websites or other content with an inexpensive filing (as little as $35 for online filing) with the U.S. Copyright Office. For a "work" (software, app, video or video game) created in the U.S., while copyright exists upon creation, failure to register the copyright with the Copyright Office means the owner cannot pursue an infringement claim in the U.S. if someone infringes the copyright, nor obtain statutory damages, which avoids the difficulty of proving actual copyright damages.

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Given the low cost of a copyright registration, and the significant benefits from registering works, this should be early on a startup's to-do list.

User-generated content. There is one more, perhaps obscure, protection granted by the Copyright Office that may apply to startups. If the enterprise will be an online service that accepts and hosts content from third parties, the startup should register a form called "Interim Designation of Agent to Receive Notification of Claimed Infringement" for a basic fee of $105. This registration as an online service provider immunizes the startup from copyright liability for hosting third-party content, provided that if an infringement notification is received, the takedown (and counter-notification) procedures of Section 512 of the Digital Millennium Copyright Act are followed. This is a huge benefit for companies posting third-party content, as copyright liability for third-party content can be large.

Domain names. Not every startup company has something to patent or copyright. But every company is focused on its domain name. Almost invariably, startup entrepreneurs will try to find a domain they can register which can also serve as their brand or company name. Once they secure the domain, they believe that they're home free. It is seldom so easy: Trademark rights trump rights in domain names. Companies may quickly find themselves as the target of a cease and desist letter from a trademark owner who believes a domain name is confusingly similar to its mark.

Trademarks. Therefore, companies must coordinate a trademark strategy with domain names and brand names. Trademark, which distinguishes goods and services in commerce, is a country-by-country process (with some ability to register marks in multiple countries, e.g., Community Trade Marks in the European Union or filing under the Madrid Protocol). Trademark filing fees in the U.S. are $325 per mark per class (i.e., sector of use). A company may have one or two marks to register, perhaps in one or two classes, and which can add up quickly to about $1,000 per mark per class for all legal work and filing fees, excluding the cost of engaging a third-party search service. Registration gives companies nationwide rights to use a mark and puts others on notice of the marks. No doubt startups wish to build brand value, so it is essential from the outset to have rights to the brand names.

Rights assignment. At an early point in the evolution of a startup, the company may engage a website developer or an app developer. To minimize legal expense, the founders may figure they can review the service provider contracts on their own. This may be a mistake if the contracts do not ensure assignment of all rights, particularly copyright, in any website design or app development to the startup (and at least perpetual license rights to any deliverables owned by the developer). The company must obtain all such rights, so this assignment of rights must be clarified in service provider contracts.

Terms of use and privacy policy. Websites need to set the terms of use/service and state a privacy policy. These must be written accurately, and the company must adhere to both. Just copying another website's privacy policy can be dangerous. These policies are contracts with the public.

Nondisclosure. Startup ideas are usually exciting, and entrepreneurs want to share them with potential investors, partners and other third parties. The first document needed is a nondisclosure agreement (sometimes called confidentiality agreement), which ideally will be signed by third parties before the company shares its concept with third parties. This prevents the third party from disclosing confidential information to others, or using the confidential information for its own purposes. Some companies will not want to sign the agreement, and it's a tough cost-benefit decision on whether to hold discussions with such a company or individual despite such refusal.

If startups follow these intellectual property protection concepts, they will be well ahead of the game in building value.


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