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Knowing IP ground rules: Unlocking a portfolio's value
By Craig Bachman

No business survives long without close attention to operations, revenue and expense, but another sound way to make a good business great is to create real value in its intellectual property and minimize IP risk.

This requires understanding the framework of IP value. IP certainly includes patents, trademarks and copyrights, but can also encompass business intelligence, valuable employees, trade secrets, brands and other aspects of the business engine. Here we consider some issues which can dramatically affect the value of IP in any business.

1. Be careful when hiring employees. Before hiring an industry veteran, investigate whether he is subject to a prior employment agreement. Even if not, he may be limited because he had access to trade secrets. A current employee generally cannot simultaneously operate a competing business. Entrepreneurs should go to their current employer and either resign or tell them what they're doing and ask if they want to invest. That is often a very smooth way of ending the relationship. Under no circumstances should they misrepresent the nature of the new business.

2. Conduct a timely trademark search. A company may infringe another's trademark by using a mark or domain name similar to an existing trademark to identify goods or services that may be confused with those of the trademark owner.

3. Properly license the technology you need. Patent infringement is a particular concern to early-stage companies because patents create broad legal protection. A patent can protect its owner's rights, not just to the particular device, but the entire process by which that device operates. When another entity's patent may cover an element of your business, proper licensing of those rights is crucial. Licensing less than all the rights a company needs to operate its business is a frequent error.

4. Institute a program for protecting trade secrets. Every company should adopt a policy for protecting trade secrets, with procedures and practices to protect confidential information.

5. Own the IP developed in your company. Patent rights to an invention made by an employee belong to the employee, even if the employee conceived and developed the invention on the employer's time. The employee may assign those rights to the employer. Under copyright law, title to a work initially belongs to its author. An employer may obtain ownership of the copyright by an assignment or under what is known as the "work for hire doctrine."

6. Get a nondisclosure agreement or file a patent application before disclosing inventions. If patent protection hasn't been obtained, or if a patent is not available, the only protection is to maintain something as a trade secret. Nondisclosure agreements need not be elaborate, but

should acknowledge possible exposure to trade secrets and agree not to use or disclose them without permission. Business plans should say they are confidential and proprietary on the cover.

7. Consider international IP protection early. Patents are generally granted on a country-by-country basis. In the United States, if an invention is sold or made public, there is a one-year grace period to file a patent application. In most other countries if the invention is sold or publicized prior to filing the patent application, the invention is unpatentable in that country. For example, if the invention is publicly disclosed to a Japanese national visiting a tradeshow in the United States, then under Japanese patent law, if no patent application has been filed, the invention may be unpatentable in Japan. Trademarks should also be protected early. A tremendous amount of money may be spent developing a brand domestically, yet when the product is shipped overseas it could violate trademarks of companies dealing in similar goods outside the United States.

8. Avoid tainting IP with third party co-ownership rights or claims. During the excitement of development, ideas come from many sources including advisors, consultants, employees and customers. Collaborative work can create IP rights which may be co-owned by several parties. Unless the ownership rights are defined, contributors may later assert ownership or may attempt to market or license the IP themselves.

9. Internally manage willfulness exposure. Under U.S. patent and trademark law, a person's awareness of, or willful state of mind concerning the existence of or possible infringement of IP of others, can significantly affect legal liability. For example, if someone is a willful infringer of a known patent, economic damages can be awarded to the patent holder up to three times the normal award. Internal documents that support this willful state of mind are a common source of such proof. It may be appropriate to discourage employees from looking at other companies' issued patents. When a suspect patent becomes known, the company should promptly refer the matter to patent counsel for appropriate analysis and opinion.

10. Solve legal issues now, not later. There's a tendency to think, "Once I get my funding, once I'm up and running, then I can hire the lawyers. Right now, I'm running as fast as I can to get my business plan done and raise money." This is shortsighted thinking. Many of the points made here are issues that can't be patched up later. That's a good reason to hire a knowledgeable lawyer. Excellent legal talent can be retained for relatively little money at the early stages. It will cost much less to get it right at the beginning than to sort it out later.