

Tips for raising venture capital: protecting your IP

By Jeff Lehrer

You have a great idea and you've built the technology. Now it's just a matter of protecting and retaining the rights to your idea. As you grow your business and gain market share, it is critical to address potential intellectual property issues that may arise as you position your company for its next venture round or potential acquisition.

IP generally

The vast majority of IP issues can be avoided through preventative risk management. Not resolving issues up front may be attractive in its simplicity – at a time when you are worried about spend and stressing about your growth, it seemingly saves legal fees and extra hassles. But failing to resolve key concerns in the beginning can easily lead to even bigger headaches down the line.

One critical mistake is failing to resolve IP ownership issues before a founder leaves or while an independent contractor is still friendly to the company. Make sure to assign IP created pre-incorporation to the company, as well as require employees to sign an assignment of inventions agreement and confidentiality agreement. Your goal is to confirm that all IP belongs to the company, including IP developed by founders, former employees and consultants.

Another common mistake is failing to get a non-disclosure agreement (NDA) before showing your technology to potential customers. This failure may foreclose your ability to patent this technology in the future. The only potential exception is VCs, most of whom will not agree to sign an NDA. Refer to our article to [learn more about the benefits and limitations of NDAs](#).

Patents

A patent for an invention is the grant of a property right to the inventor, issued by the United States Patent and Trademark Office. The three types of patents are plant, design and utility patents, and the term of new US patent grants is generally 20 years. Refer to our article for [a general overview of patents](#), for [software patents](#) and for [biotech compound patents](#).

Avoid commercializing or otherwise disclosing the company's invention to the public before filing a patent application, because this may mean immediate forfeiture of patent rights in foreign countries. If you fail to file a patent application within one year of commercializing or disclosing your invention to the public, you will also forfeit the right to US patent protection. An unfortunate, yet not uncommon, situation occurs when a company waits until a competitor starts using its ideas or otherwise offers a competing product or service before looking into patent protection. By then it is usually too late, and the competitor may have already copied attractive features of the company's product.

Don't try to save a buck on patents – you will likely get what you pay for. IP-intensive business plans should be reviewed by an experienced IP attorney, especially because he or she can help gauge whether something is patentable. Indeed, sometimes the least technological feature can be the most valuable patent.

For more information on [patent protection strategy](#), refer to our article.

Trademarks

A trademark is a recognizable sign, design or expression which identifies products or services of a particular source from those of others. Trademark rights are gained through use or registration with the USPTO. Refer to our article for [a general overview of trademarks](#).

Be sure to fully research the proposed company or product name before proceeding to use it. Failing to identify an existing conflicting patent may force you to change your name, causing the loss of thousands of marketing dollars and built-up brand value.

When you register your trademark, don't make the mistake of registering it under a founder's name. If a trademark is registered under a founder's name but is intended for the company's use, the trademark registration will be voided and you will need to start from square one.

Refer to our article for details on [trademark protection strategy](#).

Trade secrets

Some companies build significant value into their IP portfolio by protecting information as a trade secret. Where information (and value) is in the form of a trade secret, ensuring that the company takes steps to protect that information as a trade secret will be critical to a prospective investor. For more about the steps a company should consider to maintain its trade secret protection, [see our article](#) and an article published in our [IPT News](#).

When a company depends on IP as a key value driver, investors will want to ensure that the company has taken appropriate steps to preserve that value. Prospective investors will often conduct exhaustive due diligence over a company's IP portfolio. Taking pre-emptive steps to ensure that the value of the company's IP is preserved is essential to keeping company valuation high and making sure that investors move forward with closing their investment.

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