

## Who Owns Your IP?

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### ***Navigating IP Ownership Issues that May Otherwise Delay, Devalue, or Derail Funding and Exits***

Many emerging tech companies focus only on the defensive nature of intellectual property – namely, deterring competitors from stealing technological innovations or copying creative branding. While these protections are important, it can be understandably difficult to justify the associated costs when you are still in the process of commercializing a product or service. So why not worry about IP later? Because in doing so, you may miss out on the opportunity to leverage an asset known to increase company valuation, attract funding, and position your company for the next level or potential exit.

Consider an episode of Shark Tank®, a reality television show on which entrepreneurs pitch investors (the Sharks) for funding. As the Sharks grill the entrepreneurs, common themes emerge – aside from proven sales, the Sharks seem attracted to tangible assets and barriers to competitor entry. IP provides both. It also communicates that the entrepreneur is a sophisticated, forward-thinking potential business partner. Similarly, IP can enhance marketing effectiveness – “patent pending” and “patented” offer legitimacy and create an innovative brand in the eyes of consumers. Combined, these benefits can increase your company’s valuation and send the Sharks into a feeding frenzy.

However, in order for an emerging tech company to take full advantage of these many benefits, it must both own and protect its IP assets. Unfortunately, sometimes there are lingering questions around IP ownership that can delay, devalue, or derail investment deals or acquisitions. Emerging tech innovators would be wise to understand these ownership pitfalls and develop strategies to avoid them.

### **Common Situations and Remedies**

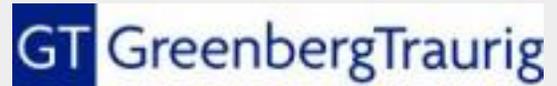
All too often, emerging tech companies must grapple with the question, “Who *really* owns the IP?” This one question has the dangerous potential to derail even the most promising early-stage company, so it is imperative for innovators to understand how to identify problem areas. There are several common situations in which IP ownership may be brought into question:

- The IP was developed before the company officially formed – has the IP been assigned to the company?
- An employee leaves an early-stage company – will the former employee later assert an ownership stake in the IP he/she helped develop?
- A company adopts suggestions from investors, customers, or other stakeholders – who owns the resulting improvements?
- A company engages in joint development with other companies or outsources an aspect of development to third-party vendors or contractors – is ownership shared? Who can leverage the IP?

### **An Ounce of Prevention is Worth a Pound of Cure**

Although emerging tech companies often become entangled in ownership issues, the good news is that these issues are easily preventable – as long as the company prioritizes IP protection at an early stage! The reality is that ownership issues are much easier to address early and often than to fix afterwards, so taking the time to prevent such issues is key.

Several safeguards exist to help prevent IP ownership issues, such as employment agreements, work-for-hire



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contracts, and non-disclosure agreements (NDA). Emerging tech companies should consider having current and future employees sign an employment agreement containing a well-drafted provision that automatically assigns any IP the employee develops within the scope of his/her employment over to the company. Similar provisions may also be useful in agreements with investors, customers, suppliers, and other third parties to increase the likelihood that the company will either exclusively own or can at least benefit from any collaborative developments that may result. This can be especially important when an emerging tech company seeks to have a third party (e.g., software developer) develop one or more aspects of a product. If the company is not careful to clearly articulate the relationship as “work-for-hire”, there may be questions as to whether the company actually owns the IP exclusively, or perhaps worse, is enjoined from leveraging the IP without permission of the third party. NDAs can deter potential IP theft, which is especially helpful for tech startups that meet with multiple investors and potential partners in efforts to launch and grow their businesses. Further, well-crafted NDAs often create an obligation of confidentiality suitable for ensuring that any technical discussions between the parties do not count as a “public disclosure” that may prevent patentability. Better yet, an emerging tech company may consider filing an inexpensive provisional patent application covering any new and valuable technology prior to such meetings, as such an approach has the additional benefit of creating a record of what the company had independently developed should the need arise to clarify who came up with what at the meeting.

It is also quite common for technology startups to emerge from university research, and thus it is crucial for businesses with IP borne out of school research to secure any appropriate licenses for such innovations. Tech innovators should be sure to contact the school’s licensing office to secure any necessary licenses for the IP, depending of course on the terms of any agreements they may have had with the university when the research was performed. While it may cost money in the short-term, the long-term benefits likely far outweigh the initial financial investment.

### **Key Takeaways: Protect Early, Protect Often, Prioritize IP Portfolio Strategy**

When emerging tech companies are in their earliest stages, the IP is arguably at its most vulnerable – and yet, the company’s IP is usually the most important asset in attracting funding and determining valuation. As such, emerging tech companies should consider taking the necessary measures to address IP ownership early and often to avoid delays – or worse – when it comes time to close on investment or an exit. Early-stage tech companies can easily avoid becoming entangled in questions of IP ownership by implementing and sticking to certain policies from the start. With the right approach to IP protection, emerging tech companies can set themselves up for a promising future.

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