

TIPS FOR STARTUPS – INTELLECTUAL PROPERTY AND ITS VALUE TO YOUR COMPANY

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Often a start-up company's most valuable asset is its intellectual property ("IP") portfolio. The forms of IP that make up its portfolio will depend on the space a company inhabits, the stage of its growth and its ideas, processes and products. To preserve and grow a company's value, it is crucial for founders to understand the forms of IP their companies have created, and will continue to generate, and to ensure these forms of IP are protected.

What Types of IP Might Form Your IP Portfolio?

To begin, it may be a useful exercise to conduct an IP audit on your own company to determine the forms of IP that now, and may in the future, make up your company's IP portfolio. Since each category of IP covers a slightly different asset, and comes with its own set of rights and protections, it is important to differentiate between the multiple categories of IP. Consider each of the categories below and whether your company may hold or generate these forms of IP.

Copyright

If your company has created an original and creative 'work', it may be protected under Canadian law. Works may include literary, artistic, dramatic, visual, and musical productions, performances, sound recordings, and some forms of telecommunication and computer programming. Copyright is the exclusive right to produce, reproduce, perform or deliver these 'works', or a substantial part of them, in any form. For example, your company may hold a right to its logo as an artistic creation, and with it, the exclusive right to produce and copy it. Anyone else attempting to create and distribute a copy of your company's logo would be infringing its copyright.

Original works are automatically protected by copyright law on creation, but it is often a good idea to register the copyright and obtain a certificate from the Canadian Intellectual Property Office. A certificate may then be used as evidence of ownership if the matter ever undergoes litigation. As a general rule, copyright protection in Canada exists for the creator's lifetime plus fifty years after the death of the creator, at which point the work becomes available to the public.

Trademarks

The law of trademarks governs the use of 'marks', including the sounds, designs, logos, slogans and brand names associated with a company's specific goods or services. Marks are used to distinguish the goods and services of one company from those of competitors, and will ultimately form the basis of a company's reputation and good will. Some forms of copyright may also be registered as a trademark (a logo, for example). Registering a trademark in Canada allows the registrant to protect the trademark under law with exclusive rights to use of the mark in Canada for 15 years, with the possibility of renewal. Companies must guard against others infringing their trademark (e.g., by using a confusingly similar logo or the same slogan for a product) and also ensure it is not infringing others' work.

Industrial Designs

Industrial designs are a product's visual features or appearance, including their shape, pattern, ornamentation, and configuration, or a combination of these factors. The shape of Apple's iPhone, a chair by Charles Eames, or the particular silhouette of a Mercedes-Benz are each examples of an industrial design. Much like trademarks, industrial design registration grants the registrant exclusive rights to the design for up to 10 years in Canada. The design must be original for the application to be eligible for registration (i.e., it cannot closely resemble another design). Application for registration must occur within one year of the design being initially published, so it is recommended that applicants register as soon as possible. Registration only protects the appearance of the industrial design, and does not protect its function or process of construction.

Patents

Patents protect new, non-obvious, and useful inventions, such as processes or methods (e.g., investment strategies or a process for mobile commerce), machines (e.g., a 3D printer), products, compositions of matter (e.g., pharmaceutical drugs), or novel and useful improvements to an existing invention. With a patent, the inventor and patent holder is granted the right to a monopoly in the market for a designated period of time in exchange for sharing the invention. To gain patent rights, the inventor must apply to the Canadian Intellectual Property Office. Patent applications are involved and time-consuming relative to other forms of IP protection; however, once obtained, patent holders may use their patents to gain a profit by licensing it or selling it as an asset.

If you think your company has created a new and useful invention capable of being patented, it is important to file an application in a timely manner and to keep these inventions completely secret, because public disclosure may prevent a successful patent filing. In Canada and the United States, an exception to this rule exists if the public disclosure was made by the inventor (or someone who learned of the invention directly from the inventor) less than one year before filing the application.

Trade Secrets

A trade secret involves confidential business information, the knowledge of which is inherently valuable. Unlike a patent, if this secret information is released, there is no protection because once the information becomes revealed, it will never become a secret again. For this reason, some companies prefer not to share their confidential information by filing a patent, instead opting to keep the information a secret. The most famous example of a trade secret is the formula for Coca-Cola soda. This formula has value in and of itself, and if it were released then that would have negative implications for Coca-Cola's business. Since there is no registration process, if your company holds trade secrets that it wishes to maintain, it must be sure to protect this information with non-disclosure agreements, confidentiality agreements and clauses, and security methods such as data encryption to protect the trade secret.

Do You Own Your IP?

It is a harsh realization to learn that your company does not own all of its IP – for example, if your company engages a contractor to provide services that involve building out your idea, unless the contract specifies otherwise, that contractor may have some ownership claim over the output of the work they performed. It is a best practice to set out ownership at the outset, by providing for IP assignment in a contractor agreement, for example, or a more comprehensive Protection of Corporate Interests document that may also include confidentiality or non compete provisions. Using these sorts of agreements will help your company avoid others claiming rights to a its IP down the road.

Why IP is Crucial for Startups

For emerging companies seeking outside financing, the strength of the company's IP portfolio is an important factor in attracting investors. One of the first questions a venture capitalist or other investor will ask is whether or not the startup actually owns the intellectual property that is foundational to the business. If a company is unable to prove it owns all of the rights to its IP, potential investors could quickly turn away to find another startup to invest in – namely, one that has held onto its IP. In addition to ensuring a company owns and has protected its IP, it is also important to avoid a situation where a company has infringed another's IP, subjecting it to potential costly and time consuming infringement claims.

Roadmap to IP Protection

To best get a handle on your startup's intellectual property portfolio, we suggest conducting an IP audit (either informally on your own or

by hiring an advisor) to see what your company's current circumstances are. Next, determine whether your company owns all of this IP and, if not, how it may be assigned. Finally, consider the extent to which the

company's IP is protected by registrations, employment agreements, or NDAs for example, and set in place a company procedure to ensure adequate protection moving forward.

With a broad variety of intellectual property rights available to companies and individuals in Canada, we advise that you speak with your legal counsel, or a trademark or patent agent, before taking action with regard to protecting your intellectual property.

by Morgan McDonald and Brandon Deans, Temporary Articled Student

A Cautionary Note

The foregoing provides only an overview and does not constitute legal advice. Readers are cautioned against making any decisions based on this material alone. Rather, specific legal advice should be obtained.

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