

# What Start-ups Need to Know About Intellectual Property

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As any entrepreneur is well aware, the early stages of a new business venture are an incredibly busy time. Entrepreneurs must focus on building the core team, structuring the company, attracting investors, developing the product/service, and developing key partnerships, sales channels and marketing plans. These tasks are typically all-consuming for the founders, taxing both their financial and time resources.

During this time, it may be a challenge to simultaneously focus on intellectual property issues. However, this early time period is also a critical time for ensuring that a business takes steps to protect its core intellectual property and avoids the risk of third party intellectual property issues. Today, more than ever, having a solid understanding of intellectual property and developing an IP strategy that aligns with the business is a crucial part of building a new venture on a solid foundation.

This article includes an overview of the different types of intellectual property and provides advice to start-up companies on how to secure their own intellectual property as well as protect against intellectual property risks from others.

The three basic types of intellectual property that startups should understand are:

- Patents
- Trademarks
- Copyrights

## Patents

Not every startup business will be best-served by investing its resources in building a patent portfolio, but the question of whether to pursue patent protection warrants a hard and early look. Knowledge of the role of patents is critical for two reasons:

- To protect your own business and inventions from your competitors

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- To avoid the risk of being exposed to assertions of patent infringement by competitors and other third parties

It is important for startups to understand the different kinds of patent protection and how they fit into their business.

Utility patents can be obtained for processes, machines, articles of manufacture, or compositions of matter that are deemed new, useful and non-obvious. The traditional subject matter of such utility patents covers tangible, technical inventions, such as improvements to client-server systems, motors, radios, computer chips and various technical product features. For example, Boeing's US Patent No. 6,227,447 is a patent that covers methods of remotely controlling a vehicle. Patents can also be directed at new product features and functions. As another example, Facebook's US Patent No. 8,171,128, titled "Communicating a newsfeed of media content based on a member's interactions in a social network environment," protects its News Feed feature.

A separate category of patent, the design patent, may be sought to protect ornamental (non-functional) designs. Some examples of notable design patents include Apple's D 604,305 covering the design of its iPhone interface and Lululemon's design patent covering its yoga pants.

## **The role of patents**

Although patents are the most expensive and time-consuming type of intellectual property to obtain, they also provide the best scope of protection. A patent provides its holder with the exclusive right to make, use or sell an invention. This means that it can exclude a competitor from making or selling the patented invention, irrespective of whether or not the competitor copied the invention or even previously knew of the patent. For this reason, a patent that covers an important feature that drives consumer demand and/or distinguishes one's product or service from that of competitors, can be very valuable.

## **Benefits of patents for a young business**

Patents may provide a number of benefits to young businesses. For example, a robust patent portfolio or a key patent can help attract investors, since it may serve as barrier to entry by competitors. Furthermore, the filing of a patent application will enable the company to advertise "patent pending" along with its product or service. In addition to potentially attracting investors, the "patented" or "patent pending" labels may deter would-be competitors, or force those competitors to adopt different designs and technologies.

As indicated above, once a patent issues it may be used to stop competitors from entering the field and allows for recovery of damages for infringement. Patents can also help the finances of a business by providing an opportunity to generate revenue from licensing.

## **How to obtain a patent**

A patent is obtained by filing an application with the United States Patent and Trademark Office. The application includes a description of the invention accompanied by drawings, followed by a list of the elements that form the invention, called the patent claims. The patent claims set out the metes and bounds of the invention. Third-party products or services that practice the elements of a claim infringe

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the patent.

When a patent application is first filed, an examiner is assigned to it. The examiner will reject or allow claims based on an assessment of their patentability, and the patent applicant will have an opportunity to respond to the examiner's decisions. This back-and-forth with the Patent Office, known as prosecution, can take a number of years and is best done by an experienced patent attorney who understands the procedures, the legal requirements and the art of drafting strong patent claims.

## **Impact of the America Invents Act**

Changes in the patent law implemented by the America Invents Act (AIA) half a decade ago have impacted the leading practices for businesses looking to file for patent protection. First, the U.S. is a "first inventor to file" system. This incentivizes early disclosure of inventions and early filing of patent applications.

When two people independently come up with the same invention, the first inventor to file for a patent on his or her invention is awarded the patent, regardless of which actually invented first. For this reason, it is important for businesses to streamline operations to reduce the time from invention to filing of patent applications.

Early and cost-effective filing can be achieved through provisional applications, which are essentially invention disclosures that can be converted to full patent applications within one year.

In addition, the AIA also provides for a prioritized examination procedure, which expedites the patent examination process. While the use of prioritized examination is more costly up-front, it may reduce overall legal expenses, since a patent can be obtained within one year.

## **Avoiding infringement of other patents**

A second important aspect that startups should consider with respect to patents is a defensive one, i.e., avoiding infringement of the patents held by others. As a matter of practice, startups should conduct a patent search to verify that their business is free of patents that could be asserted against their product or service. The up-front cost of performing this search and related analysis is relatively minor and is offset by the potential for huge savings, both in terms of litigation costs and wasted investment in an infringing idea. The cautionary tale of Vlingo underscores this point.

Vlingo spent years developing voice recognition technology that led to talk of partnerships with Google and Apple. However, another voice recognition company, Nuance, which held a patent on voice recognition, sued Vlingo for patent infringement. Although Vlingo ultimately won the lawsuit, by then the company had already lost its potential partnerships, and the cost of defending the suit forced Vlingo to sell its business to Nuance. An early patent search could have revealed the Nuance patent and may have allowed Vlingo to take appropriate strategic steps to address the issue. For example, they might have been able to adopt a different design to avoid a run-in with Nuance.

## **Trademarks**

Trademarks take us into the world of branding. Trademarks serve to build brand awareness and business goodwill. They can impart consumer confidence in a product by its association with a brand the consumer recognizes and trusts. A trademark can be words, symbols, logos, slogans or product

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packaging and design that identify the source of goods or services. The Coca-Cola logo is one of the more famous trademarks.

Unlike patents, trademark rights are only acquired through use. Even without registration, the symbols "TM" or "SM" may be used to accompany trademarks or service marks to designate products or services. However, only registered marks may be accompanied by the "®" symbol.

Although registration with the US Patent and Trademark Office is not required to gain trademark rights, registration provides certain important benefits to the trademark holder. For example, without a registration, the trademark rights are limited to the geographic area in which the product or service is marketed and sold, and protection begins only after the product or service is available for sale on the market.

In contrast, federally registered marks provide nationwide rights. Registration also creates a prima facie case of validity of the ownership as well as an exclusive right to use the mark for specified goods or services. Once registered, the owner of a mark can stop importation of infringing products through U.S. Customs.

## **Clearing and registering key trademarks**

Just as with patents, when seeking trademarks, businesses should be aware of whether their desired name, logo or domain name is already in use by others. Searching for existing uses is known as trademark clearance, with the goal being to "clear" a desired mark for use. Clearing the name and brand early on will reduce the likelihood of problems down the road.

Startups should look to protect their brand early by clearing and registering key trademarks. Registration is relatively quick and inexpensive, generally a few thousand dollars for a clearance search and subsequent filing for registration. A trademark application must specify the type of mark -- i.e., whether the mark consists of just words or includes a stylized design or even an identifying color or sound. The application must also specify the particular goods or services to which the mark will apply.

As the company grows, it will become increasingly important to police infringing uses of its marks. Such efforts will help ensure that the business is not losing customers due to confusion with knock-offs.

## **Copyrights**

Copyright is a form of intellectual property that protects the expression of ideas. Books, music, art, photographs, architecture and even computer software can be protected by copyright.

However, while copyrights protect the expression of ideas, they do not protect ideas or concepts themselves. For example, a copyright can protect a particular photograph of a bird, but others may still create their own photographs of the same type of bird.

Another requirement for copyright eligibility is that the work must be "an original work of authorship." Facts, titles, phrases, and forms per se cannot be copyrighted.

## **Exclusive rights to copyright owners**

Like trademarks, copyright registration is optional. As soon as a work is written or recorded or otherwise made “tangible”, it is considered to be copyrighted. US law provides various exclusive rights to copyright owners, including the rights to reproduce the work, prepare derivative works and distribute copies, irrespective of registration.

However, registration provides significant procedural benefits. Critically, registration is necessary in order to file a lawsuit for copyright infringement. It is also necessary to receive certain remedies, such as statutory damages and attorney fees. Registration also provides a presumption of originality and ownership, and it allows US Customs to stop the importation of infringing or counterfeit works.

Businesses should include the "©" symbol or the word "Copyright" on all distributed materials. They should also include the year of first publication, the name of the owner, and the language "All rights reserved."

Businesses should consider registering any important materials so that the option of filing lawsuits is available to address infringement. Registration can be filed online with the US Copyright Office for a nominal fee.

Startups should also be careful to avoid using third-party photos, music, or writings on their website, marketing materials or products. Such use could lead to a potentially costly infringement dispute with the copyright holder.

Finally, because the author is the copyright owner by default, startups should take steps to ensure that they receive the rights to any copyrightable work created by employees or third-party contractors. The Copyright Act lists specific requirements for works for hire, and employment and third-party contractor agreements should include specific language to address ownership of any copyrightable works.

## Conclusion

While intellectual property issues may sometimes get brushed aside during the early stages of a business, developing a diligent and intelligent IP strategy early on is important.

Startups should evaluate the types of intellectual property that can impact their business and strategically consider pursuing patent, trademark and copyright protection as appropriate.

Defensively, startups should also assess the intellectual property landscape of their business. That awareness should include clearance efforts to ensure that the company will not infringe the intellectual property of others, as it develops its products and services.

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