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IP IN SOFTWARE EARLY STAGE STARTUPS

What You Need to Know

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Key Mistakes about Intellectual Property

1. *"IP is a core asset only for tech and data-driven companies, not for us"*

2. *"The law protects my ideas and nobody may use such ideas in their own business without my permission"*

3. *"Our product team is like a family and we do not need to make any burdensome steps to protect our IP – we trust each other"*

4. *"IP is protected by virtue of its creation and its just ours because our contractors and employees has created such IP for us"*

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Types of IP Protected Assets (High-level Overview)

Copyrights and objects of related rights
Software, databases, visual, audio-visual works, etc.

Know-how
Confidential commercially sensitive information that is protected until disclosed by a third party

Patentable objects
Solutions of technical nature, that can be protected as inventions or utility models

Trademarks
Commercial designations that are needed to single out a company or a product among others (your brand)

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IP Protection of Software

- Software, including AI, is basically protected as literary works (copyrights)

- Source code, object code, audio-visual demonstrations, and preparatory works are protected as copyrights

- Usually do not require registration to be protected but in some countries registration with the Patent Office may provide additional protection or enable to get local benefits

- In certain countries and subject to certain conditions software may be protected by the patent

- Being kept confidential, certain parts of software (e.g., source code) may be additionally protected as know-how

IP Advancement Timeline

Step #1
Development

Step #2
Protection

Step #3
Commercialization

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Step #1: Development

Step #1: Internal Measures

"Work for hire" rules such as internal policies, procedures and agreements with employees and individual contractors (if applicable)

Controls over development of IP by employees (employees' reporting, mandatory use of task managers and corporate repositories, etc.)

Internal awareness programs to make sure that employees are informed about internal rules and their responsibilities

Track record and inventory of all intellectual property developed or otherwise acquired, owned and used by a company

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Step #1: Third-party Development Agreements

- Detailed description of software to be developed by a third-party

- Additional services to be provided (testing, trouble-shooting, etc.)

- Assignment/licensing terms in relation to the developed software (ownership of IP rights)

- Use of open source software (banned, permitted with no viral licenses, etc.)

- Remuneration and terms of payment, adjustment terms and procedure

- Development controls (stage-by-stage acceptance, use of task managers, etc.)

- Subcontracting of development to other third parties (general permission, general ban, approved third parties, etc.)

- Other customary terms (liability, applicable law, jurisdiction, etc.

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Step #1: Transactional Impact

Info requested for a legal DD:

- Inventory of all IP owned and used by a company

- Copies of all agreements with employees and contractors, that govern development of IP for a company, including all related documents such as SoW, Acceptance Certificates, etc.

- Confirmation that all and any remuneration were paid to all employees and contractors (including all invoices and payment instructions)

- Copies of all assignment and license agreements to confirm lawful use of IP, etc.

Transactional impact:

- May be a red flag for IP-driven transactions with low degree of buyer's (investor's) risk appetite

- Prospective buyer (investor) may request for an additional transactional protection other than customary warranties, indemnities and terms of a seller's liability

- Conditions precedent may be requested (for example, execution of assignment agreements with contractors prior to the transaction)

- Purchase price may be decreased
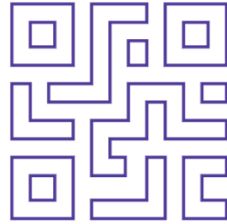
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Step #2: Protection

Step #2: Protection Mechanisms

Tool #1
Register with the PTO and/or deposit the software code with a designated institution

Tool #2
Apply for the patent protection of software (limited patentability; depends on a jurisdiction)

Tool #3
Incorporate confidentiality commitments into third party-contracts

Tool #4
Implement commercial secrecy and/or know-how protection

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Patent Protection vs Know-How Rules

Criteria	Patent Protection	Know-How
What can be protected?	Patentable assets – shall comply with specific criteria (limited patentability)	Any commercially sensitive information (may be restricted by law but still very broadly)
How to implement?	Apply for a patent, long-term procedure with a patent office	Implement internal rules and controls (specific rules may be mandated by law)
Measure to retain protection?	Payment of patent fees and renewal fees (where the law provides for such an option)	No payments; only legal, organizational and technical confidentiality measures required
For how long is protected?	Term of protection is limited; once expires – the IP may be freely used by any third party	As long as the information remains confidential

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Step #3: Commercialization

Step #3: Basic IP Agreements

Do you want to retain ownership of IP rights

NO → **Assignment Agreement:** IP rights are fully transferred to an acquirer (assignee); an original owner does not retain any IP rights

YES ↓

Do you want to grant IP rights to a third party on an exclusive basis

YES → **Exclusive License:** an owner (licensor) retains the rights; a licensee may exclusively use the IP under the license terms; same license may not be granted to any other third party; the agreement may restrict the licensor's own use of IP (default rules may differ in various countries)

NO ↓

Non-exclusive License: an owner (licensor) retains the rights; same license may be granted to any other third party; the agreement does not restrict the licensor's own use of IP

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Step #3: Key Types of Distribution to the Customers

Software-as-a-Service (license + services agreement)

Online distribution + activation keys (license)
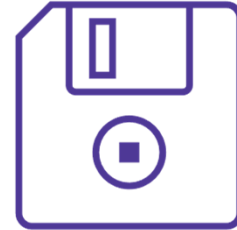
Offline distribution (license + SPA)

Additional Issues to Consider

- **Taxation rules:** certain countries provide tax and social benefits and/or exemptions for software developers

- **Public procurement:** certain countries specifically govern purchase of software for governmental needs

- **Licensing requirements:** in certain countries development of specific types of software (e.g., encryption) requires governmental authorization

- **Certification requirements:** certain countries require compliance assessment of specific types of software (e.g., IT security software)

- **Foreign sanctions:** sales of software in certain countries may be subject to specific foreign sanctions (may be banned or partially restricted)

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THANK YOU

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