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Avoiding the Third Party Nightmare

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Working with a third party, whether it be an investor, a joint venture, a business partner or a hardware or software developer, is much like a marriage; in order for the relationship to last, you have to get it right from the beginning. For example, a start-up company may have a new patentable idea and require a third party software developer to produce the final product. Similarly, a start-up company may seek investment and partner with an angel or venture capitalist to fund the project. If the terms of such third party arrangements are not clearly spelled out, specifically with respect to IP rights ownership, a disaster is just waiting to happen.

“Working with a third party ... is much like a marriage”

With respect to start-ups working with hardware or software developers, it is important to have a clear agreement as to who owns the IP rights, whether it be for the original idea, the final product or any later improvements. Too often, start-ups in their rush to develop their product contract out work to third parties with no provisions regarding IP rights, only to have such third parties file patents to the final product or their improvements. This can quickly become a legal nightmare, and can easily be avoided by ensuring that the terms regarding IP ownership are clearly set out up front. Such agreements should also list any existing IP rights that are owned by the start-up and third party companies.

“agreements should also list any existing IP rights”

Similarly, when inventors or start-ups are working with business partners, whether it be a co-inventor, CEO or investor, IP rights ownership should be discussed up front. A good practice from the start-ups point of view is to ensure that all IP is assigned to the start-up, as soon as possible. After all, relationships can go sour, and start-ups can end up working with hostile inventors who refuse to later assign any IP rights to the start-up or participate in the patenting process. Taking steps to avoid such problems include requiring employees to sign employment contracts that clearly spell out IP ownership and related duties.

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From the inventor’s point of view, it is important to set out in any employment contract IP rights that the inventor brings to the table, prior to employment. Many inventors have had their previous inventions taken by their employer after being hired, under threat of being fired. If the inventors assign their inventions to employers, the inventors should negotiate fair compensation and review any company agreements to ensure that any equity in the form of shares provided as compensation is not diluted or worthless in any way.

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Accordingly, taking steps to ensure that IP rights are properly spelled out is a most important step in any business relationship. A good practice is to treat any such relationship like a marriage, and ensure that you would be willing to get in bed with your partners. It is also important to find a patent attorney who takes the time to understand the needs of the inventors, start-ups and business partners to ensure that any IP agreements are a win-win for all parties involved. Good teamwork and playing fair, get things done right the first time!

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