

**Intellectual Property Basics for
Angel Investors**

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Types of Intellectual Property

- Major Importance
 - Patents
 - Trade Secrets
- Minor Importance
 - Trademarks
 - Trade Dress
 - Copyrights

Patents - The Basics

- Patents protect:
 - (1) novel, (2) useful, and (3) non-obvious processes, machines, manufactures, or compositions of matter
- Gives the patent owner:
 - the exclusive right to *exclude* others from selling/offering to sell, using, making, or importing the invention
- Term is
 - 20 years from filing date
- In exchange for this “legal monopoly,”
 - inventor must disclose how to practice the invention

So what can be patented?

- Patents protect processes, machines, manufactures, or compositions of matter that are:



(1) new



(2) useful

$$2+2=5$$

(3) non-obvious

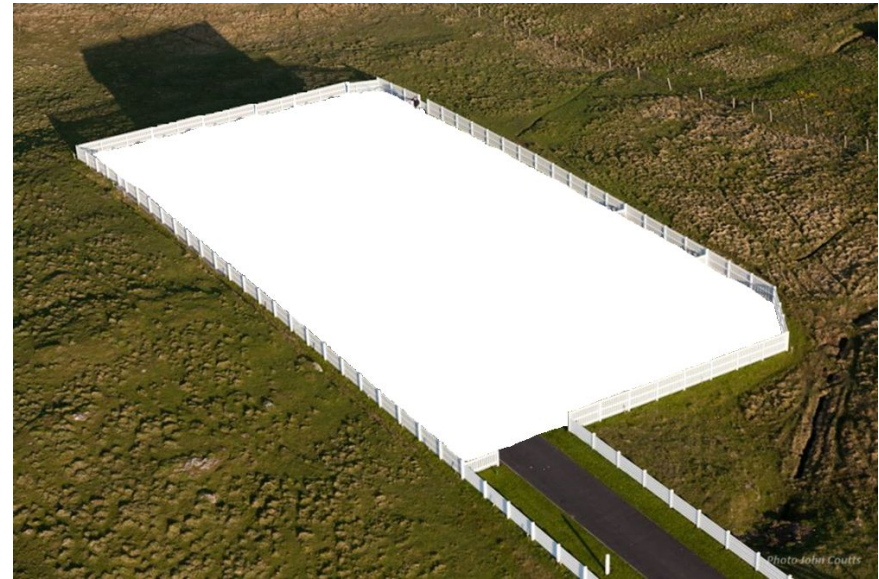
- A vast majority of U.S. patents are incremental improvements over existing technology

What rights does a patent grant?

- Gives the patent owner the right to exclude others from practicing the patent (20 years)
- Does NOT provide right to practice invention



Rights you may think a patent provides (right to do whatever you want inside fence)



Rights a patent actually provides (right to exclude others from trespassing)

The Value of Patents

- Can Bring Tremendous Value to Startup
 - Can be Critical to Obtaining Investment
 - Can Provide Revenue
 - Cross-Licensing Potential
- Secure Market Position / Exclusivity
 - They are Swords (Offensive)
 - Can Exclude Competitors from the Business
 - Can Protect Products from Duplication
 - They are Shields (Defensive)
- Demonstrates sophistication and professionalism
- What is customary in the field?

Value of Patents

- “Strong” versus “Weak(er)” Patents
 - Value comes from *excluding*
 - Lots of alternatives = weaker patents
 - Ex: proprietary communication protocol
 - Ex: Formulation for generic drug
 - Critical step = very valuable
 - Ex: standardized wireless communication protocol
 - Ex: New drug compound

Ownership

- Inventors own the invention (before assignment) – undivided interest in the entire patent
- Types of agreements that affect ownership rights
 - Employment Agreements
 - Consulting Agreements
 - Development Agreements
 - Manufacturing Agreements
 - Collaboration Agreements
 - Visitor’s Confidentiality Agreements
 - Government Interests
- U.S. laws “inventor friendly” in terms of presumption of ownership

Loss of Rights

- Disclosure of your invention may preclude ability to patent (novelty and obviousness provisions of the patent laws)
- One year grace period in U.S. (but not many foreign jurisdictions!)
- Type of Disclosure that may qualify as prior art
 - Abstracts
 - Posters
 - Oral Presentations
 - Manuscripts v. Online Publication
 - Online Videos (YouTube)
 - Grant Applications
 - Theses/Dissertations
 - Offer for Sale

Some factors in considering what to patent

- Easy to Design Around?
- Revenue Driver Potential
- Patentability
- Difficulty in Proof of Infringement
- Technology Life Cycle
- Trade secret versus Patent?

Preserving Rights to IP: Perfect is the Enemy of Good

- Patent rights are key to attracting angel and venture funding
 - The ability to exclude competitors often drives valuation
 - Broad patents that encompass later developed technology are ideal
- Trade secrets and know-how may not be sufficient
 - Can be the basis for royalties
 - But can be difficult to define and prove use
- Trademarks or trade dress can be valuable
- What is customary in the industry?
 - Software as a Service
 - Consumer Goods or Services
 - Drugs or Medical Devices

Investor Scrutiny of License Agreements – University or Big-Pharma Sourced Inventions

- Potential investors should scrutinize license agreements to determine the scope of exclusivity
- Licensor-retained rights or a narrow license (field of use restrictions, geographic territory, nonexclusive) may negatively impact valuation
- Licensor may have equity in the startup.
- The startup may have options to improvements so that foundational rights and improvements are not split among competitors – may enhance value.
- Licenses may not assignable or transferable without licensor consent.



Know the Competitive Landscape

- A blocking third party patent could kill angel or venture funding
- Conduct landscape searches on key technology
 - Utilize public databases: USPTO, PCT, EPO, Google patents to identify low-hanging fruit
 - Utilize investor and inventor expertise to identify potential third parties
- Investor diligence should also include
 - Identifying potential third party risks
 - Understand startup's strategy for avoiding/acquiring blocking IP
 - Understand startup's strategy for protecting their IP
- A surprise third party patent risk uncovered during diligence can reduce valuation or be a basis for turning down deal

7 Intellectual Property Issues That Should Not be Overlooked

1. Make Sure the Startup Owns Their IP

- Investigate obligations to assign to former employers, funding partners
- Government funding may mean government rights
- Ownership and enforceability of IP will be scrutinized during any subsequent funding round, IPO or acquisition diligence and are thus critical to optimizing the valuation of your company and positioning for a successful exit

2. Provisional Applications Help Protect IP, If Done Right

- Foreign protection requires application before public disclosure
- Provisional application only provides priority for material actually disclosed
- Multiple provisional applications provide the best protection

7 Intellectual Property Issues That Should Not be Overlooked

3. **Granted Patents' Impact on Valuation**

- USPTO and other patent offices offer prioritized examination procedures to allow startup to potentially obtain patents within a few months of filing.

4. **Many Different Written Agreements Affect Startup's IP Rights**

- Need to ensure full suite of agreements in place: non-disclosure, non-compete, IP assignment.

7 Intellectual Property Issues That Should Not be Overlooked

5. Don't Be “U.S.-Centric”

- Some technologies are patentable in the U.S., but not patentable around the world, such as Europe and Japan (e.g. methods of medical treatment)
- Medical technology startups with a revenue model having an initial revenue stream in Europe may be surprised if it does not have an IP strategy in place to protect its IP in countries outside the U.S.
- Must know early which countries might be important and develop appropriate patent filing strategy. Even if methods of medical treatment not be patentable in Europe, the underlying medical device that is adapted to perform the method might receive meaningful patent protection.

7 Intellectual Property Issues That Should Not be Overlooked

6. Early Third-Party Licensing Terms Can Kill A Future Deal

- Startups often license foundational technology from an institution or other third party without proper oversight of the agreement.
- Ill-conceived agreements can lead to terms unfavorable to the startup in the long run (e.g. licensing terms that call for excessive milestone payments or that do not allow the startup to unilaterally terminate the agreement, control litigation, or get acquired without consent from the licensor) and can kill future investment rounds.
- Same true for licensed fields of use that are too narrow to evolve with the startup's future innovation and the licensor has already licensed a needed field of use to a competitor.

7 Intellectual Property Issues That Should Not be Overlooked

7. Consider All Forms of IP Protection

- Only certain types of inventions are eligible for patent protection
The patent system requires public disclosure 18 months after filing and many businesses monitor patent publications.
- Consider keeping certain innovations as trade secrets, especially for software.

Thank You!

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