Big Bang!
Business Competition
Intellectual Property and Organization Basics

April 21, 2016

DLA Piper LLP (US)

Global Platform Providing World Class Service to Emerging Growth Companies
- Ranked #1 Am Law Global 100
- 76 Offices in 30 Countries – 4,200 lawyers
- Strength in all critical practice areas

IP and Technology
- 400 IP lawyers globally (150 in the US)
- A top ranked firm for global patent, trademark and licensing practices
- Recognized as one of the top law firms “The 50 Most Innovative Companies in the World” rely on to protect their IP
- Represent some of the most valuable brands (Apple, Harley-Davidson, Southwest Airlines, BMW, Virgin)
David Richardson

- Corporate & securities partner in Sacramento & SF
- Practice focused on technology start-ups, emerging growth, venture capital and M&A
- Clients include Groupon, Andreessen Horowitz, Clorox, and former Big Bang! contestants (Bloo Solar, Foodful.ly, Ambercycle, Adrastia Biotech, Archer Software)
- UC Davis grad (x2)

Overview

Intellectual Property and Organization Basics

- Protecting your IP
  - Practical strategies for early stage IP protection
- Organizing your company
  - Avoiding the first-timer mistakes
What do investors (and potential commercial partners, and customers, and early employees, and lawyers) really care about?
### Types of Intellectual Property

<table>
<thead>
<tr>
<th>Type</th>
<th>Area of Protection</th>
<th>Term</th>
</tr>
</thead>
<tbody>
<tr>
<td>Patent</td>
<td>Technological inventions</td>
<td>20 years, not renewable</td>
</tr>
<tr>
<td>Trade Secret</td>
<td>Technological inventions plus</td>
<td>Perpetual as long as there is commercial value and reasonable efforts to keep secret</td>
</tr>
<tr>
<td>Trademark</td>
<td>Product names, symbols</td>
<td>10 years, can renew perpetually if in use</td>
</tr>
<tr>
<td>Copyright</td>
<td>Works of expression</td>
<td>95 years from first publication, or 120 years from creation (works made for hire)</td>
</tr>
</tbody>
</table>

(Generally most important/relevant for tech start-ups)

- Patent
- Trade secret
### Trade Secrets and Patents

Both Patents and Trade Secrets protect ideas:
- New process
- New formulation
- New method of synthesis
- New software
- New device

### Trade Secret or Patent?

**Which to choose?**

**Trade Secret:**
- If invention **cannot** be easily discovered
- If the invention is not patentable
- Term—forever, if protected

**Patent:**
- If invention can be discovered or “reverse engineered”
- Term—20 years from patent filing
# Patent Basics

- Patent rights are territorial
  - U.S. patents provide **NO rights outside the U.S.**
  - Can file directly in other jurisdictions within 1 year of priority filing
  - A Patent Cooperation Treaty (PCT) application can be filed to provide a foundation for later filings in many other countries
  - Individual filings in specific countries and regions ultimately required
- **Cost $$$**
  - U.S. provisional—$3500+; U.S. non-provisional—$10K to $20K+
  - Foreign—can be $100k+
  - Maintenance fees/annuity fees

## Timing for filing patent applications:

- **US Patent Applications**
  - Must be filed within 1 year of
    - a) the disclosure of the invention;
    - b) an offer for sale of the invention; or
    - c) commercial use of the invention
- **Foreign Patent Applications**
  - Must be filed **before** any public disclosure of the invention
  - Utility – must file within 1 year of US application
  - Design – must file within 6 months of US application
- **Confidentiality/Non-Disclosure Agreements**
- **Best Practice**
  - File a patent application in the US **before** any public disclosure of the invention to preserve both US and foreign patent rights
  - Due to America Invents Act change to “First to File” – File patent applications ASAP
### Patent Basics: U.S. Application Timeline

<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>-1</td>
<td>Provisional application filing</td>
</tr>
<tr>
<td>0</td>
<td>File non-provisional – “patent pending,” description substantively frozen</td>
</tr>
<tr>
<td></td>
<td>18 months after first filing – patent application publishes</td>
</tr>
<tr>
<td>2</td>
<td>Claims are examined and, often, rejected</td>
</tr>
</tbody>
</table>


<table>
<thead>
<tr>
<th>Year</th>
<th>Event</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5</td>
<td>Notice of Allowance</td>
</tr>
<tr>
<td>4</td>
<td>Issued U.S. Patent</td>
</tr>
</tbody>
</table>

### Patent Basics

- **Defensive Patenting**
  - Protect present and anticipated core technologies
  - Define improvements against licensed-in patents

- **Offensive Patenting**
  - Build larger fence to prevent competitors from designing around and avoiding core technology patents
  - Publication of applications serves as prior art against others seeking broad coverage

- **Do investors really care (in the early stages)?**
What questions do investors ask?

- How many patents and applications do you have?
- Are the patents and patent applications properly assigned or licensed to the company?
- Do your patents cover your product(s)?
- Do the patents cover design-arounds by competitors?
- Are the patents valid?
- What is market/revenue potential (e.g., is reimbursement high enough)?
- Does your company have Freedom to Operate?

**Patent Basics**

**Freedom to Operate (FTO)**

- Does the sale of your invention infringe a patent?
- Is the patent valid?
- Can you get a license?

**The FTO Conundrum: Knowledge does not always = power**
Patent Basics

Tech Transfer

- Follow proper procedures to license Intellectual Property from University
  - Obligation to disclose
  - Patent process
  - License process
  - IP developed after license agreement

Patent and Trade Secret Basics

- Public disclosure can destroy patentability
  - Absolute in most foreign jurisdictions
  - One year grace period in U.S.
  - Conference presentations and journal articles
- Use confidentiality agreements for early third party disclosures
  - Avoid disclosures before filing patent applications
- Use provisional application process
- Trade secrets are perpetual
  - Require formal systems to maintain
Trade Secrets

- Duty of reasonable care
  - No public disclosure
  - Confidentiality agreements with all employees and consultants
  - Appropriate firewalls and e-mail security
  - Encrypted wireless communications
  - Vault
  - Moat with alligators

Protecting Your IP

Practical approaches for tech start-ups:
- Treat (most) everything as confidential
- Carefully guard business and technical information:
  - Ideas
  - Technology
  - Know-how
  - Computer code
  - Business information
  - Marketing plans
- Use Nondisclosure Agreements ("NDA")
Protecting Your IP

Practical approaches for tech start-ups:

• Assignment of existing rights:
  • Founder assigns IP in exchange for equity (tax free)

• Assignment of future rights ("PIIA"):
  • All work done for the company belongs to the company, including all IP
  • All company information to remain confidential
  • List of prior inventions
  • For independent contractors, all IP is work-made-for-hire and is assigned automatically upon creation (vs. upon payment)

Patent Ownership

• Each inventor owns equal and undivided interest
• All inventors must sign declaration stating that they are an inventor
• Inventors assign their rights to company (or university)
• Ownership rights may then be licensed
### Protecting Your IP

**Don’t take what’s not yours**
- Misappropriation
  - Moonlighting responsibilities
  - Obligations to employer
  - Steps to avoid conflict
- Follow proper procedures with Tech Transfer

### Protecting Your IP

- Establish an IP-savvy culture
  - Management, scientists, engineers, business development team and finance professionals all on the same page
- Education and communication are key
  - IP is a valuable asset of the company
  - Company has an IP strategy
  - Employees are aware of the IP strategy
  - Company is implementing the IP strategy
  - Employees understand that following the IP strategy is critical to the company’s success
Protecting Your IP

Keep good records

- Institute an Internal Invention Disclosure and Review Process
  - At start of project, describe the goals
  - Record Research and Development
  - Bound books or verifiable electronic records
  - Have a non-inventor review, understand, and witness pages of your notebook
- Regular and Formal Review
- Mailing documents to yourself?

Organization Basics

Forming the Entity

- Don’t Fear Formation:
  - Establishes credibility
  - Limits liability
  - Houses IP
  - Establishes currency
- Types of Entities:
  - C Corporation (Delaware)
  - Partnership
  - Limited Liability Company (LLC)
  - Subchapter S Corporation
Organization Basics

Carving up the pie (i.e., capitalization)
- Establish roles and responsibilities
  - Allocate based on relative contribution
  - Contribution can be IP or other assets, cash or pre-incorporation expenses
- Anticipate dilution
  - Future financing rounds
  - Shares for future employees
- Vesting schedules
- Common vs. Preferred

Thank You

Questions?