

**LESI 2023**  
**Montréal**  
**Workshop 2**

**IT'S ALL ABOUT THE MONEY -  
LICENSING, SECURITIZATION,  
AND OTHER USES OF IP  
PORTFOLIOS BY START-UP  
COMPANIES IN THE US, CANADA,  
EUROPE AND ASIA**

**MODERATOR:**

**BRUCE H. BERNSTEIN, GREENBLUM & BERNSTEIN PLC**

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**DONALD MIN, WITHROW & TERRANOVA**

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**SANTOSH K. CHARI, CPST INTELLECTUAL PROPERTY**

**SEUNGYEOB BAIK, NEAR & WISE IP**



**Withrow  
Terranova<sup>IP</sup>**

# Uses of IP Portfolios by Start- Up Companies – an inhouse perspective

**LES Annual Conference**

**May 1, 2023**



## Donald Min



### Academic Background

- B.S. in Electrical Engineering, Purdue University

### Career Highlights

- (Current) Of Counsel, Withrow Terranova
- VP of IP, Virgin Hyperloop
- Senior Counsel, Johnson Controls
- Patent Counsel, Qualcomm
- Partner, Knobbe Martens

### Practice & Experience

- Prosecution / Trial / Litigation
- Technology (IP) Valuation
- Technologies of expertise include computer hardware, software, semiconductors, communications systems, and RF circuits.

# It's always about the \$\$\$

STARTUPS GENERATE A RETURN PRIMARILY BY HAVING **POWER** OVER A KEY ASPECT OF A MARKET/TECHNOLOGY. IDEALLY, THIS **POWER** RESULTS IN:

- MAKING MONEY THROUGH PROFITS; OR
- IT IS BOUGHT AT A HIGHER PRICE LATER BY ANOTHER ENTITY THAT WISHES TO ACQUIRE THAT POWER.

# Some basics every startup must answer

- How will/does the startup make its money?
- If it makes a profit, how certain is it that the startup will continue to make \$X for the next month, year, etc.?
- How long has the startup been making money?
- How did the business get to making \$X? Did it get there quickly, slowly, in steps?
- Is the startup growing? Could it be growing more than it is currently?
- How many competitors/suitors are there?
- What is required to keep the startup running properly?

# Why do startups file IP? **Power** over a tech.

1. IP serves as evidence (especially to investors or acquirers) regarding the **long-term viability and differentiated performance** of the startup.
2. IP processes identify the **key individuals and technologies** that contribute significantly to the IP.
3. IP provides a **medium of exchange** for working with suppliers, customers, and third-party organizations.
4. As a last resort, IP serves as an **enforcement mechanism or store of value**.

# Key questions all IP execs Should ask

1. Who and what will serve as the basis of measurement for IP, i.e., the reference baseline?
2. What is the desired role in markets?
3. What are the IP processes to generate and maintain IP?
4. How to scale IP?
5. Who is your nemesis?
6. IP risk mitigation?

# The answers should address timeline ...

- Short term – technical adoption phase characterized by perception of high risk
  - Technical trials.
  - Solutions proposed via proof of concepts or MVPs.
- Mid term – early market phase characterized by high growth fueled by early adopters
  - Commercial deployments commenced at limited scale.
  - Competitor and cross-mode response, likely an IP suit or demand for licensing, restrain competitive design arounds, etc.
- Long term – growth/maturing market characterized by market-wide acceptance
  - A market leader is established.
  - Scaling of commercial deployments.
  - Extend and fill out IP with progressively narrower scope/relevance.  
Commence work on next core technology and related IP.



# Trade secrets – often neglected

- For innovations that are hard to detect, unpatentable, or easily designed around:
  - Algorithm details
  - Thermal management?
  - Manufacturing techniques
  - Maintenance techniques
- Startups often neglect their IP that is subject to complex integrations, extensive customization, and open ended services for maintenance and upgrades. Likely scenario is as follows:
  - Startup works with partners and customer to develop a new solution.
  - Team must capture and document body of knowledge that is initially in the form of trade secret.
  - The body of knowledge is evaluated, and if appropriate, converted to patent protection. Remaining knowledge is tagged and maintained as trade secret.
  - Trade secrets and body of knowledge is **repackaged** as part of a service offering. The service offering may be implemented by a service partner or automated, e.g., in software via machine learning or AI systems.

# TRADE SECRETS – Often Neglected

- SHORT TERM: Conduct IP audit to inventory and identify trade secrets, key personnel, third party interactions, and establish appropriate forms/processes. **Create a register and assert a value of these trade secrets.**
- MID TERM: Implement IT systems and document management systems that handle trade secret information appropriately.  
OPTIONAL: Establish incentive program for rewarding high-value trade secrets.
- LONG TERM: Formalized program that identifies, marks, and protects trade secrets. Trade secrets then form a basis for an affiliate program and partnership program.

# Patent strategy – Key takeaways

- Core vs. Non-core IP must be continually monitored and updated. Today's differentiated feature becomes tomorrow's standard offering.
- Full exclusion by patents alone is unlikely. Patent strength is a synergy of technical merit, legal merit, and marketing.
- Early on, a startup should use IP as a medium of exchange for:
  - Inbound licensing.
  - Technical collaboration.
- Patents should be categorized based on:
  - Technology providing at least a magnitude of order gain;
  - Capture of a niche market;
  - Features that are marketed for product differentiation; and
  - IP is shared.

# The Long Game for IP

- Establish Awareness
  - Identify peers, competitors, and nemeses
  - Identify potential partners and
- Self assessment to correctly align core/non-core IP, eliminate waste, etc.
  - Consider inbound/cross licensing to extend access to other IP portfolios.
  - Establishing cooperation with relevant authorities, and law firms
  - Identify any gray market/counterfeiting parties
  - Vendors
- Establish processes and build
  - Surveillance programs established for IP infringement, branding, etc.
  - Reverse Engineering and prepared IP for litigation against likely nemeses.
  - Establish IP monetization and/or outbound licensing program.



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THANK YOU

LES Annual Conference

# IP Portfolio Strategies

LES Annual Conference

May 1, 2023

Santosh Chari





Santosh Chari

## My Background

- Academic and Professional Qualifications:
  - B.Sc. Biochemistry and B.A.Sc. Chemical Engineering
  - P.Eng – Ontario
  - Registered to practice before Canadian Intellectual Property Office and U.S. Patent & Trademark Office
- Practice comprises preparation and prosecution of patent and industrial design application and advising on IP portfolio management
- Professional career spans over 30 years including partnerships in boutique and full-service firms
- Clients include SMEs, universities, government agencies, and multinational organizations
- Rankings: IAM Patent 1000, Who's Who Legal: Patents; Who's Who Legal: Canada; Managing Intellectual Property IP Stars; LMG Life Sciences: Life Sciences Star

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# Topics

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IP 101

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Importance of IP Protection

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Hurdles in securing IP

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Strategies

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# IP 101

- Components of an IP portfolio include:
  - Patents
    - Product, apparatus, process, formulation, etc.
    - 20-year term
  - Industrial designs
    - Unique appearance
    - 3D or 2D (e.g., icons, GUIs)
    - Terms vary from 10-25 years
  - Trademarks
  - Copyrights
  - Trade secrets

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# Importance of IP Protection

Put simply, intellectual property is now the chief engine of wealth creation and economic growth in the world. (Gary Michelson; *The Intangible Advantage*)

- IP is an extremely valuable business tool!
- Used for:
  - Maintaining monopoly (competitive advantage)
  - Attracting financing/investors/partners
  - Cross-licensing (potential foil to infringement claim)
- Firms that patent are more likely to increase profits and experience growth (IP Canada 2020; ISED Canada)
- Characteristics of SMEs with IP rights: 2x more innovative; 3x more likely to expand domestically; and over 4x more likely to expand internationally (IP Canada 2019; ISED Canada)

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# Hurdles in securing IP

- Most forms of IP are limited by jurisdiction
  - Need to decide very early which countries are of interest (need that crystal ball!)
- Filing in multiple regions can be expensive
  - Must balance with budget constraints
- For patents, often need to protect multiple inventions
  - Patenting costs can be significant (but necessary!)
- Decisions on IP protection must be made early on – difficult for startups
- All of these factors mean: “It’s all about the money”!

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# IP Strategies

## 1. IP awareness is critical for SMEs

- Firms aware of IP and take steps to secure protection are more likely to succeed
- Establish clear IP policies
- Consider creating IP committee to steer IP generation, capture, protection, and management

## 2. Maintain confidentiality

- Keep inventions secret until ready to file
- Restrict access to R&D facilities and use NDAs
- Include IP ownership clauses in employment agreements

## 3. Vigilance is important

- Conduct regular patent searches: consider both defence and offence positions.
- Appoint dedicated person so searching skills are honed (searching is an art!) and consider available searching platforms/services

# IP Strategies

4. Focus protection on core technologies
  - Tailor to business plan; may not be able to protect everything!
  - Patent vs. trade secret vs. publish
5. Establish tiers of countries for protection
  - “Must have” vs. “nice to have”
  - Will be based on business plan
  - Will be based on invention (consider subject matter restrictions)
  - Filing strategy may vary by country (e.g., Canada has no Continuation practice and Divisional filing has double-patenting risk)
6. Take advantage of available filing options (e.g. PCT) to defer decision/cost
7. Continually revisit IP strategy
  - IP portfolio may need to vary with change in R&D direction
  - Drop some / add some
  - Role could be assigned to IP committee

**Thank you!**

Santosh Chari



Licensing, Securitization and other uses  
of IP Portfolios by Start-up Companies  
in the US, Canada, Europe and Asia

# How to leverage IP for Start-up Business

especially about Korean start-up companies

BAIK, Seungyeob

Patent Attorney / Founding Partner



## Academic Background

- B.Sc. in Nuclear Engineering, Hanyang University

## Career

- **Near & Wise IP Law Office / Founder**
- Shinhan Bank / Technical Evaluation Advisor
- Honest & JR Partners; Machinery Team II
- CENTRAL IP & Law; Electronics and Machinery Team

## Practice & Experience

- International Cases
- Prosecution / Trial / Litigation
- Technology (IP) Valuation
- Stock Market Listing Evaluation
- Heavy Industries, Construction, Mechanical tools, Light Fixtures, Shipbuilding, Medical equipment, HVAC systems, Automotive Vehicles, E-commerce, AI, Software, BM, Security systems, etc.



## Agenda

- 01 Why Korean Government Promotes IP Financing?
  -
- 02 IP Valuation Practice in Korea
  - Elements for Valuation
- 03 IP Secured Loan
  - Business Structure
  - IP Investment / Financial Improvement / Tax Savings
- 04 Strategies in Various Stages of Start-up
  - Series A / Series B / C and after
- 05 Q&A



# Why Korean Government Promotes IP Financing?

01

- 1. Technology-intensive industrial structure**
- 2. Lack of natural resources**
- 3. Preemptive action in the industrial environment change such as the industry 4.0**
- 4. Contributing to industrial revitalization in the phase of slowing growth**

- **What kind of promotions provided by Korean Government?**
  - **Patent Office - IP Fund Raising**
  - **Guarantee Agency - IP Loan Guarantee**
  - **Bank - IP Loan Collection (Recovery) Organization**



# IP Valuation Practice in Korea



## **Elements for Valuation**

- 1. Technology**
- 2. Excellence in Rights**
- 3. Marketability**
- 4. Business value**

- **How much accurate is the IP Valuation?**
  - **Possibility of Standardization / Possible? Impossible?**
  - **Purpose to evaluate / Loan? Assignment?**
  - **Bank - IP Loan Collection (Recovery) Organization**
  
- **Is it helpful even for Start-up companies? Indeed?**
  - **No Sales Company?**
  - **Little Sales?**
  - **A lot of Sales – No needs?**



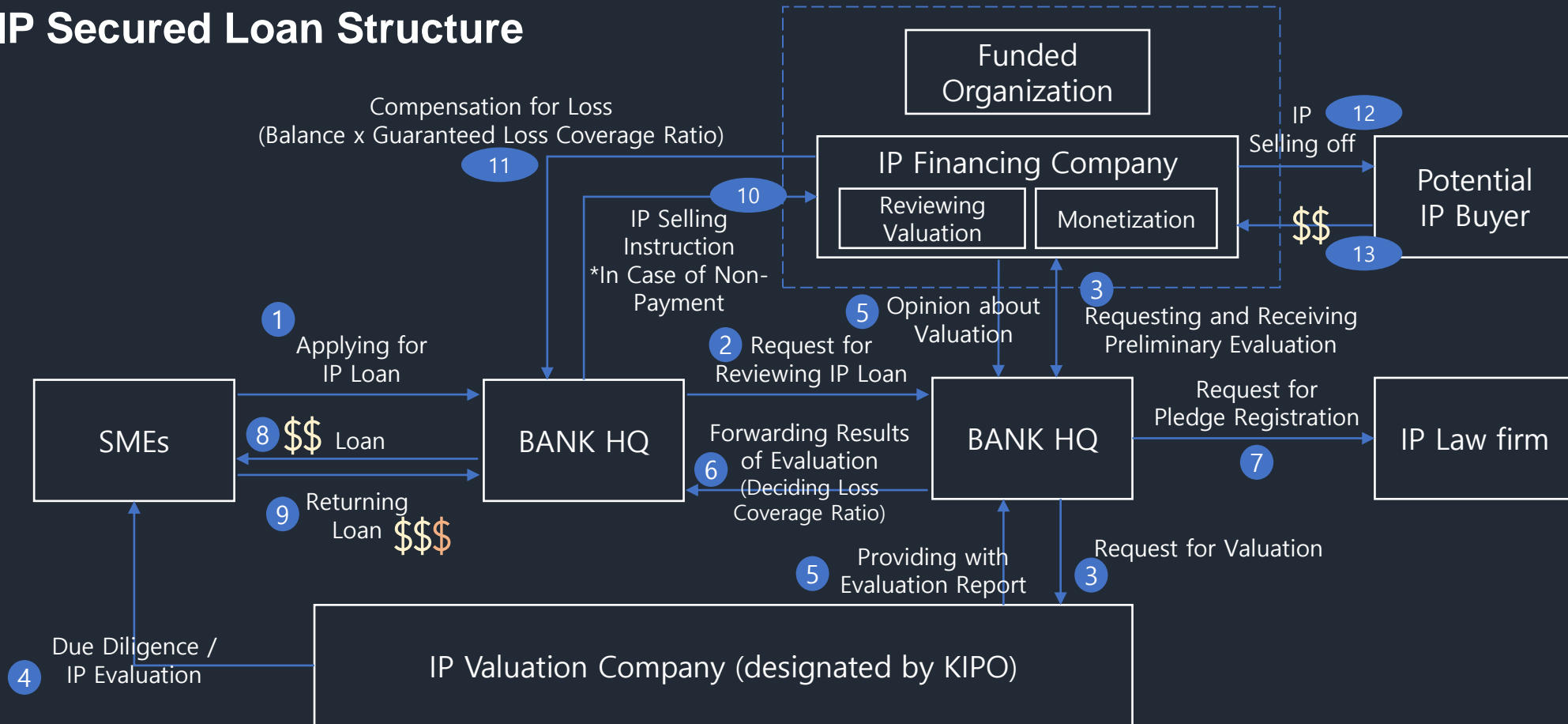
# IP Secured Loan

03



# IP Secured Loan Structure

## Loan Guarantee Agency



- **How does Korean Banks secure their loan againsts IP?**
- **Are IP secured loans in Korea actually operating well?**
- **Can startups use it?**

- **Others**
  - **IP Investment**
  - **Financial Improvement**
  - **Tax Savings**



# Strategies in Various Stages of Start-up

Series A / Series B / C and after

04

- 1. Pre A or Series A**
- 2. Series B**
- 3. Series C and after**



# Q&A

05

# **“IT’S ALL ABOUT THE MONEY – REAL LIFE EXAMPLES OF LICENSING, SALES AND OTHER USES OF IP PORTFOLIOS BY STARTUP COMPANIES ”**

**Bruce H. Bernstein, Esq.**

**Greenblum & Bernstein, P.L.C.**

**LESI Annual Meeting**

**May 1, 2023**





# Bruce Bernstein, Esq.

## Education:

- Tufts University BS Applied Physics
- Georgetown Law Center, JD

## Career Highlights:

- USPTO Examiner in EE and ME
- Law Clerk, PTAB
- Co-Founder, Greenblum & Bernstein, P.L.C.

## Practice + Experience:

- Licensing and IP/business strategy
- Litigation and USPTO contested matters
- Patent prosecution
- IAM Top 300 (2022)
- Conversational Japanese



# HOW DO STARTUPS USE IP

1. To secure financing and to attract investors
2. To extend financial “runway” by licensing or sale of IP
3. To establish superior position vs future (and bigger) competitors
4. To attract strategic partners for Joint Ventures/Purchaser
5. To salvage \$\$ when company fails



# 1. TO SECURE FINANCING/ATTRACT INVESTORS

- A. Series A and later round investors like to see IP
  1. Validates technology
  2. Shows management appreciates the long term view
  3. Due diligence at this stage often superficial-investors want to know company has IP, but not at a granular level
- B. Banks and Financiers
  1. See Seungyeob's Presentation
  2. Many loans secure all property – bank review often cursory
  3. Financing Statements/Security Agreements filed on State Level in US and at USPTO
  4. To get serious money, need a serious valuation – but difficult as many institutions find it hard to seriously evaluate IP value



## 2. SALE OF IP – A CASE STUDY IN EXTENDING FINANCIAL RUNWAY

### The seller

1. US based imaging startup of large multinational company developed a new camera product category and obtained a large portfolio of basic patents – “early” in the field
2. Business strategy changed to other products even though product category later “exploded”
3. Company conducted “quiet” auction of patents and sold to a company that was the initial sales leader in product category
4. US startup retained non-exclusive license for possible future use

# 3. CASE STUDY OF ESTABLISHING PROACTIVE IP POSITION

## The Buyer – a “Needy” Company

1. First company commercially in this imaging space had first mover advantage
2. Other larger companies worldwide started to compete and surround the technology with their own patents
3. Company purchased patents from the US startup
4. Manufacturing company and all its IP later sold to one of the large competitors

## 4. ATTRACT STRATEGIC PARTNERS

- ❖ Joint venture for drug development
  - Chemical company had long term strategy and created drug startup
  - Identified potential new drug
  - Purchased university technology
  - Bought small company and infused it with that technology
  - Filed many patents
  - Big pharma became interested
  - IP and drug technology licensed for VERY successful new product – success significant enough to become large revenue driver for the company for years

# 5. USE IP TO ATTRACT BUYER – A CASE STUDY IN THE FOOD AND BEVERAGE INDUSTRY

1. Startup for Healthy Sugar Substitute
2. Technology - growing new ingredients naturally
3. Many established beverage and ingredient players already searching for the “Holy Grail”
4. Company created large patent portfolio for growth and use of ingredient
5. Established food ingredient company bought company and IP

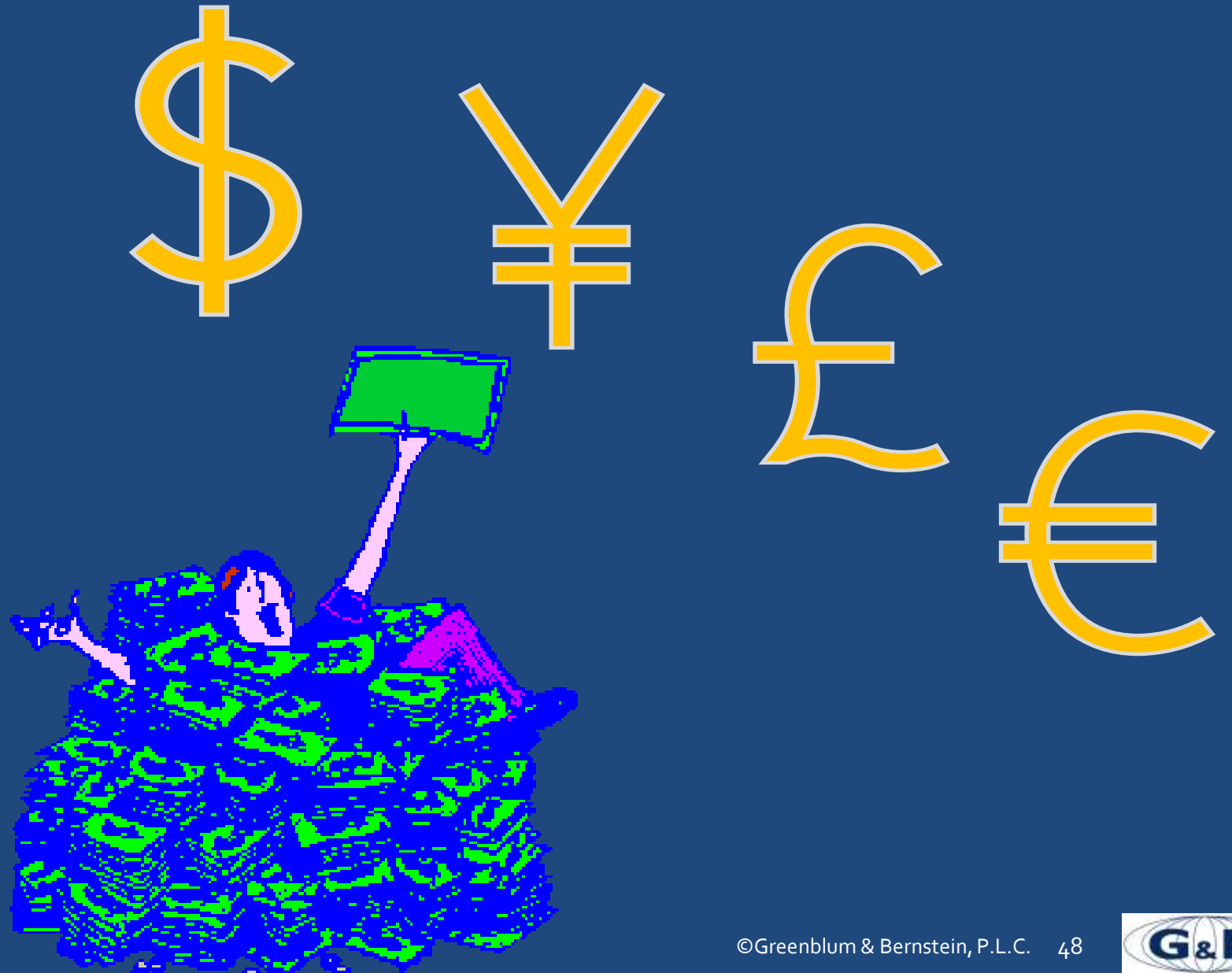


## 6. STARTUP USING IP TO BECOME SERIOUS COMPETITOR

- Startup began by copying more mature competitor(s) in camera field
- Competitor used patents to force startup into time limited license
- During license term, startup employed strategy of building patent portfolio in anticipation of end of license
- When license ended, competitor sued, startup sued in response, and after a long patent battle there was a settlement which established the startup as a viable competitor



STARTUP IP  
IS USUALLY  
ABOUT  
THE...





# **Challenges & frequent misconceptions** in licensing, securitization and other uses of IP portfolios by start-up companies

**(a European litigator's perspective)**

**Nora Kessler**



## Nora Kessler

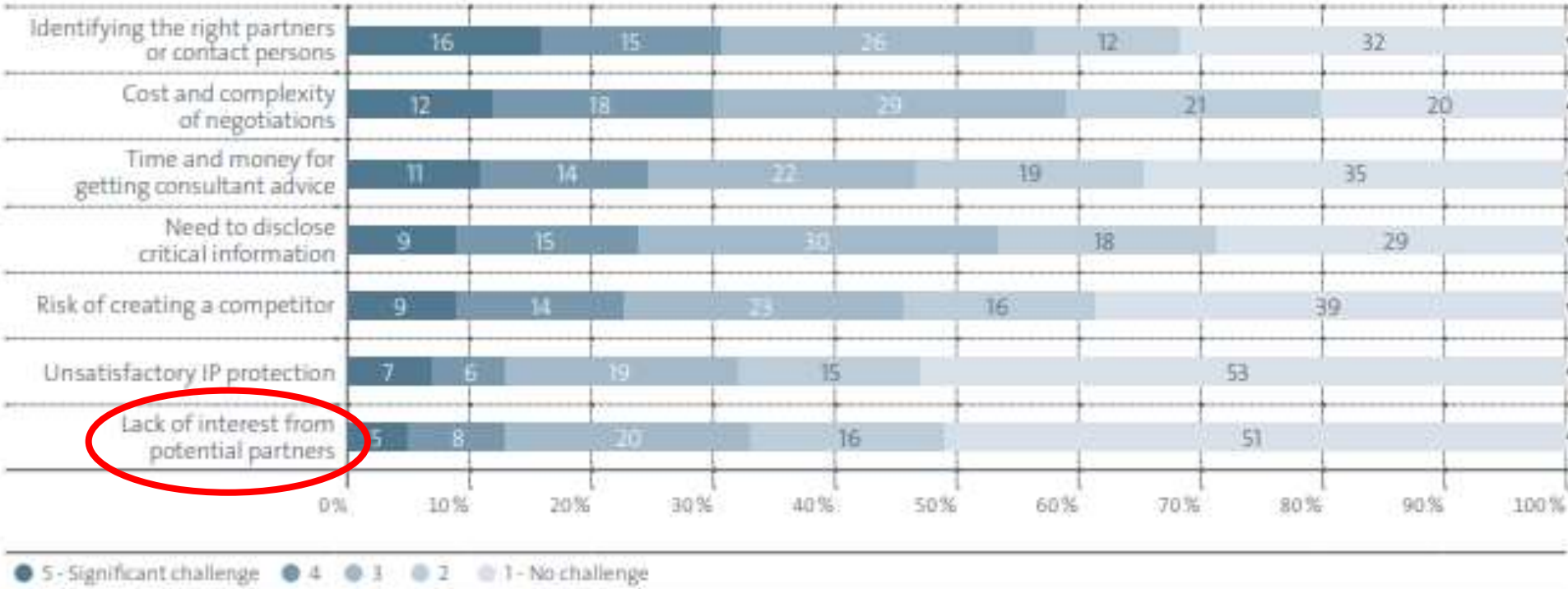
- IP litigator based in Frankfurt, Germany
- Ranked by Legal500, Chambers Global, IAM Patents 1000, IAM Patents 300 Global Strategy, WTR
- Lecturer at Frankfurt University since 2018 for Patent Law in Pharma MBA program
- Work mostly for pharmaceutical, medical devices, automotive, construction, life sciences, cosmetics and luxury goods industry
- Started career at Jones Day in 2004 in team of Friedrich Klinkert. Since 2010 at KLINKERT Partners; equity partner since 2013
- KLINKERT Partners is a highly specialized boutique law firm focused on IP, sports, media, litigation and arbitration - 16 lawyers (6 partners, 10 associates & counsel)

# Challenges

## ➤ Challenges

Figure 5.9

### Challenges in collaborative exploitation



Basis: number of interviews unweighted N=285, of which 4% Don't know and 3% No statement.

Source: EPO Publication "Market success for inventions" - Patent commercialisation scoreboard: European SMEs November 2019

## ➤ Challenges

### ➤ Lack of interest

- inefficient to deal with individuals and small companies
- long and difficult route to decisions
  
- unsolicited offers are viewed skeptically
- fear of litigation from inventors who claim IP theft
  - Some companies have strict delete-policies for unsolicited licensing offers

## ➤ Challenges

### ➤ Keeping interest alive

- The dance of what to say / what not to say
- Killing the mood with NDAs
  - NDA are important to safeguard confidentiality,
  - protection as Trade Secret requires adequate measures (e.g. NDA);
- but
- insisting on NDA might complicate / end negotiations
  - filing patent applications before approaching investors / partners
  - as a minimum: documenting what has been disclosed to whom and when

## ➤ Challenges

### ➤ **How much you can disclose also depends on how well you are protected**

- method patents more difficult to enforce than device patents
- know-how misappropriation more difficult to enforce than patent infringement
  - Obtaining evidence can be difficult (no discovery in many countries)
  - Costs of litigation (in Germany a fraction of the costs of US litigation, but still costly for many start-ups)

➤ **Challenges**

➤ **Don't be seduced by the prospect of money to say too much**

➤ If an offer is too good to be true, it is not true



## ➤ Challenges

- **Who gets custody?** (allocation of IPR ownership)
  - Incubator programs / investors can have very different approaches
    - Some insist on getting sole ownership of all IP
    - Some leave ownership to the start-up
    - Some require perpetual, royalty free license
    - Joint ventures: shared ownership
      - who gets to decide what?
  - Don't give in to temptation to postpone discussion and decision on difficult topics in negotiations (*„the parties shall at a later point in time negotiate in good faith on the allocation of the ownership of IP“*)

# Misconceptions

## ➤ Misconceptions

- A patent does not guarantee commercial value
  - Positive signal that
    - start-up has done its homework
    - carved out and defined its niche
  - But: a patent (even granted) is no guarantee for success and not a proof of concept
- Relevant factors for success: Contacts, track record/reputation of team, proof of concept/prototypes, market

➤ **Misconceptions**

➤ A patent does not guarantee freedom to operate

➤ **Case study**

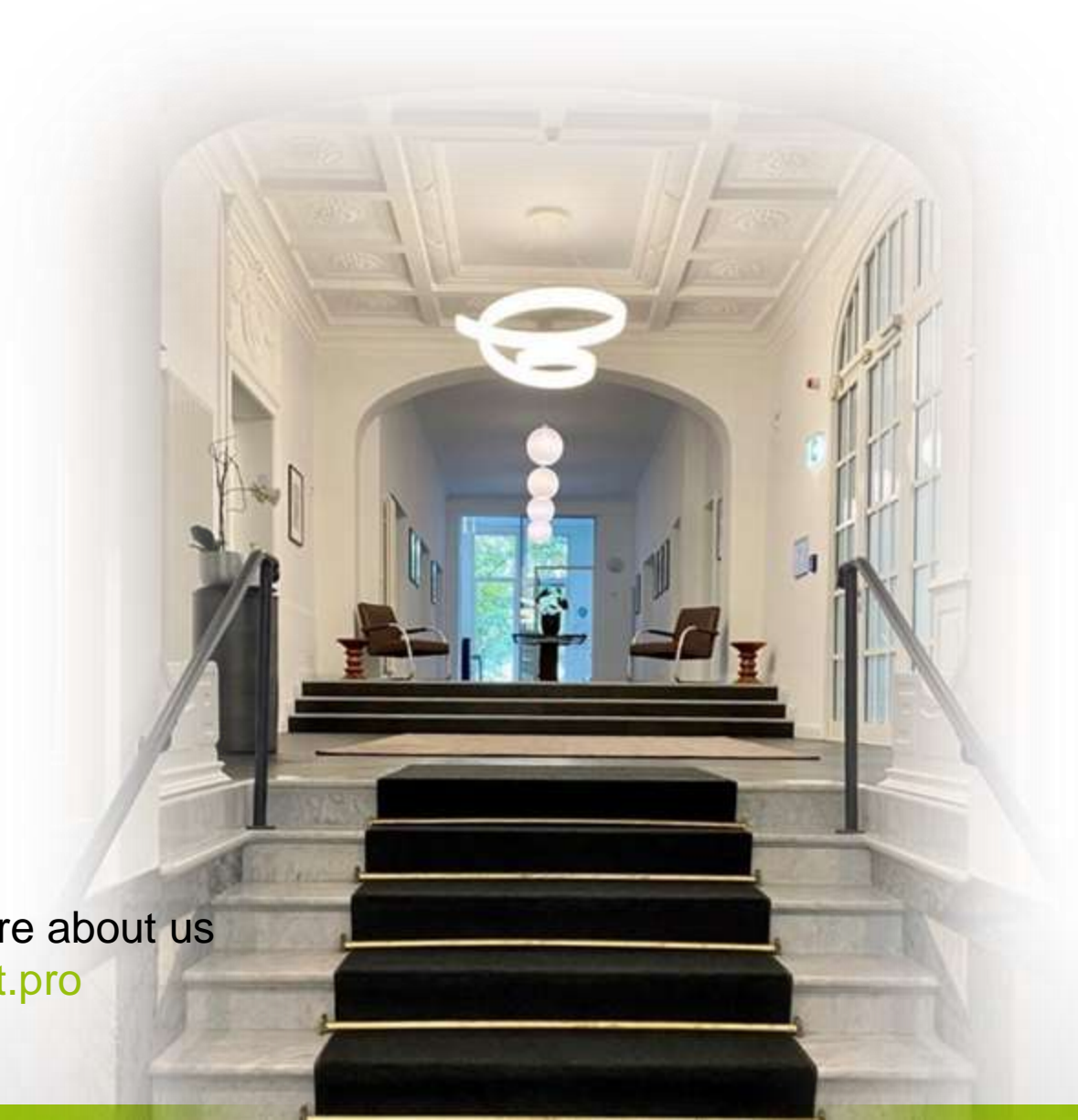
## ➤ Misconceptions

- Small but relevant differences in national IP laws
  - Extent of examination of patents not necessarily the same everywhere
    - Germany: novelty & inventiveness
    - France (until 2020): only novelty
    - Belgium: patents granted regardless of outcome of examination
  - Thoroughness of examination / quality of patents
    - German Federal Court of Justice: only 25% of patents (German and European) survive nullity action
      - 47% full invalidation
      - 28 % partial invalidation
    - Industry Patent Quality Charter – aims to increase quality of patents

➤ **To end ...**

➤ **A few thoughts about the UPC and European Patents with Unitary Effect**

- Start of UPC on June 1, 2023
- Jurisdiction within territory of UPCA for infringement and validity actions concerning EP-UE and traditional EP patents (unless “opted out”)
- Costs of prosecution/maintenance:
  - less for EP-UE compared to EP, if protection is sought for a greater number of EPC states,
  - but higher, if protection is sought for only few states
- Costs of litigation:
  - lower compared to parallel litigation of EP in several countries
  - but higher compared to litigation in only one country
- Procedure at UPC will be very efficient
- Exposure is higher (invalidation for entire territory)
- Uncertainty because new court will operate under new rules of procedure



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