



Introduction to

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Protecting and marketing the crown jewels: IP right strategies for start-ups

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Part I: Introduction

Nicolas Mosimann

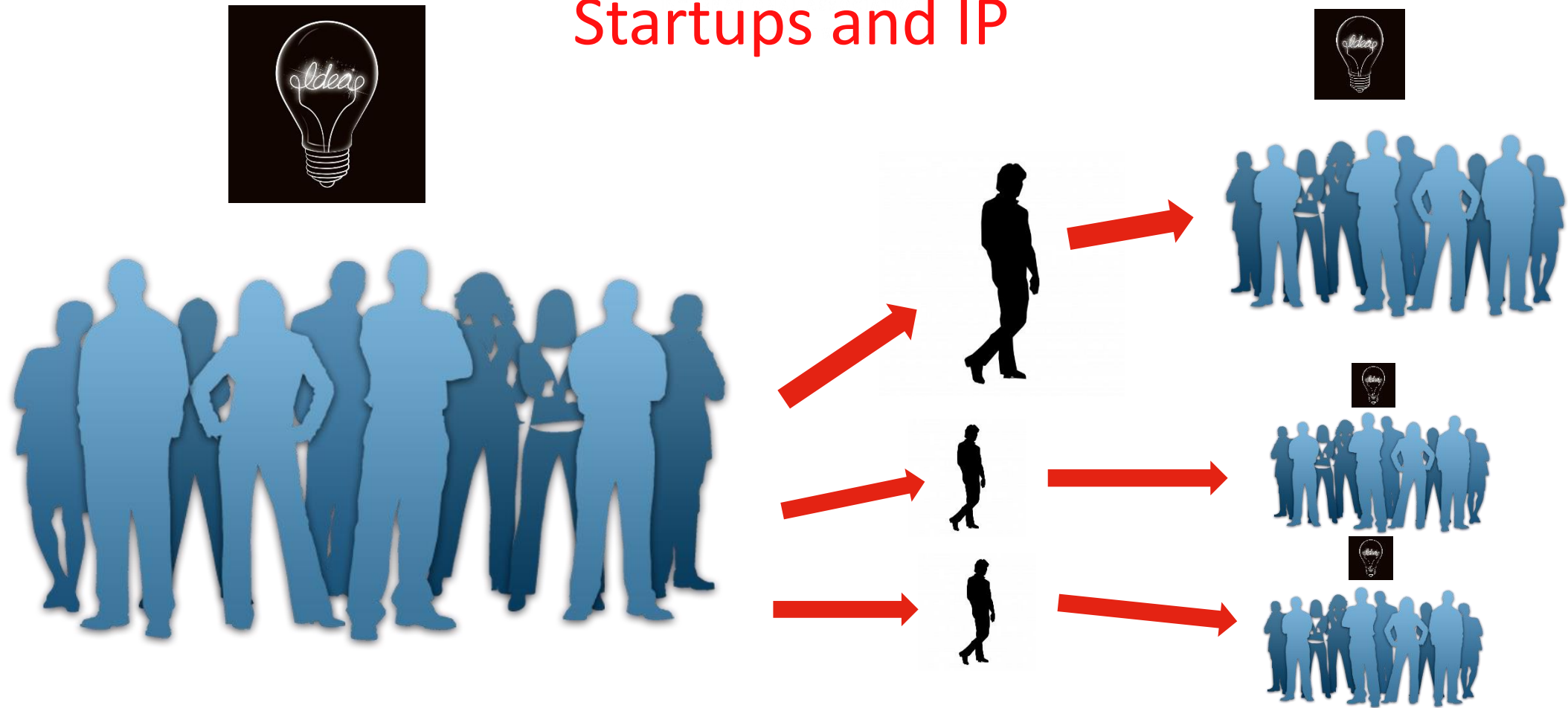


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Startups and IP



How does a VC think?

- Investment in team
- Capable of building a unique business
- Globally scalable in large markets
- Based on differentiated technology/product
- Strong IP protection (depending on product)

Protection of what and how?

Coporate identity

- trademarks
- domain names
- right to company name
- copyright (logo)
- (social media)

In most cases relevant

Product/service

- trademarks
- patents
- design rights
- copyright
- (confidentiality)

Not in every case essential/key;
depending on product/service

IP = \$\$\$

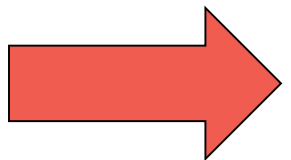
Protection

Avoidance of disputes



Applicable Law (1)

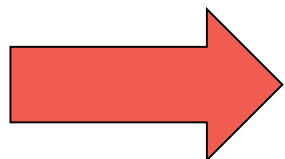
- International context
 - International development teams with different places of work
 - Global distribution/licensing of products



Applicable law is to be determined

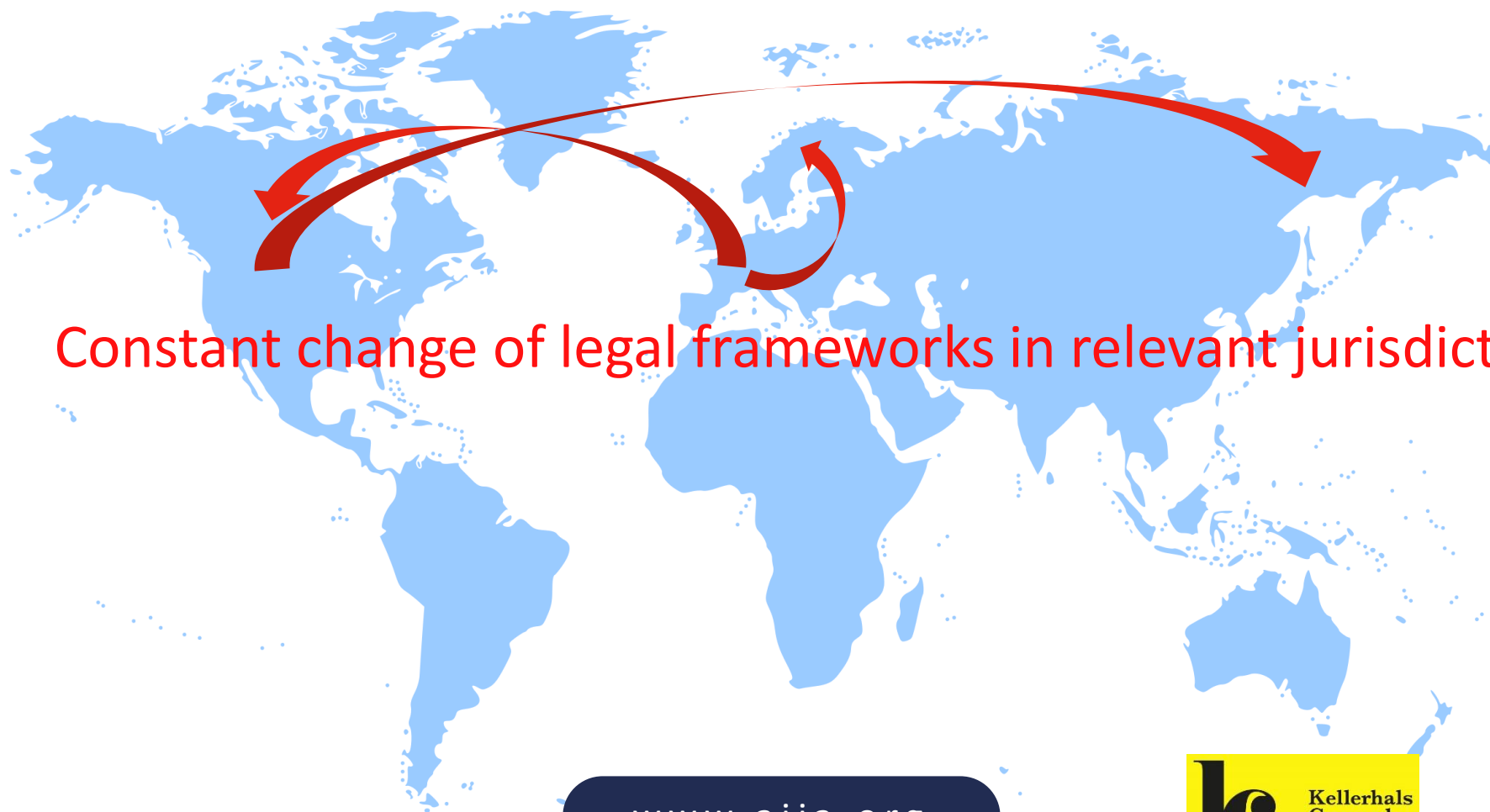
Applicable Law (2)

- Basic rules:
 - Parties are free to choose the law applicable to agreements (with some exceptions).
 - The law applicable to IP rights follows the principle of territoriality. No choice of law.



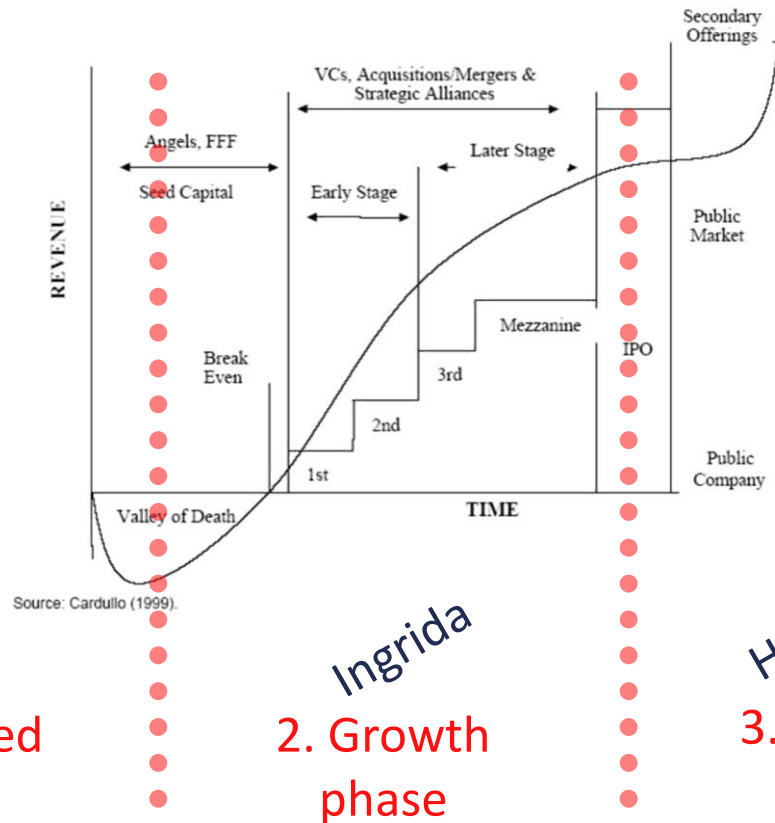
Think globally!

IP Strategy: it's about the future!



Constant change of legal frameworks in relevant jurisdictions

The Life Cycle



Antonio
1. (Pre-)Seed
Stage

Ingrida
2. Growth
phase

Halfdan
3. Exit



FORO DE LA ASOCIACIÓN
DE JÓVENES ABOGADOS

Part II: (Pre-) Seed Stage

Antonio Varas



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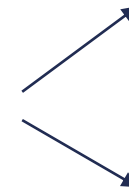
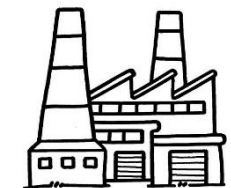
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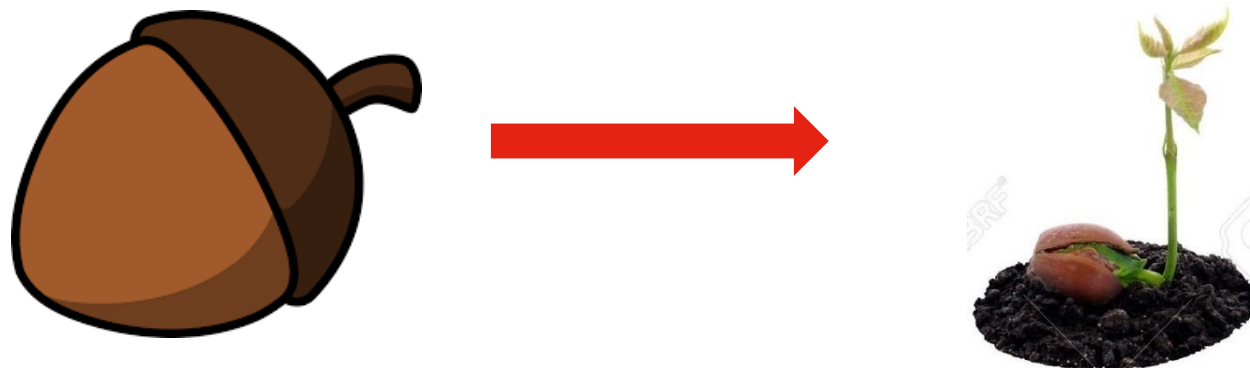
I.- Ownership: *Start on the right foot* (avoid future problems)

I.I.- Potential Issues with Employers

I.II.- Potential Issues with employees and partners



II.- From Seed to Seedbed (go fast!)



Why it is important to apply for IP protection at an early stage?

III.- Avoid killing novelty: *Keep it quiet ...shhh...*



Innocuous divulgation (grace period)

IV.- Consider alternative protection measures: NDAs



V.- Some additional ideas ...

V.I.- Build a structure (clear boundaries)



V.II.- Discuss or prepare future negotiations
NOW!

V.III.- Keep your spirit high!

Part III: Intellectual Property in the Growth Phase

Ingrīda Kariņa-Bērziņa
Partner, Head of IP/IT & Regulatory
COBALT Latvia

Intellectual Property in the Growth Phase

Three main issues for companies in the growth phase:

1. Identifying and protecting IP
2. Monetizing IP
3. Resolving IP disputes

Identifying IP

- **1 500 to 2 000 patents**

Data-processing methods, semiconductor circuits, chemical compounds, etc.

- **Registered design**

Shape of phone

- **Registered trade marks**

Brand name, start-up tone

- **Copyright**

Software, ringtones and images



Source of data: European Patent Office

Protecting IP

Protection = **Securing legal rights in the IP.**

- Filing **patent** applications for inventions
- Registering **trademarks** for signs indicating origins of goods, services
- Registering **design rights** for visual appearance of products
- Using **copyright notices** and having proper **contracts /waivers** for all works (remember employees and contractors!)

NB: Since legal protection (except ©) is strictly territorial, must do this for every jurisdiction in which trading!

Notes on IP protection

Make sure that your IP does not infringe others' rights (as before)

When to protect IP: ASAP. Why? **First in time, first in right**

Patents, designs **MUST** be kept secret until filed

Trademarks may be used first, filed later, but beware: not all TM offices check for prior rights. If your competitor files your mark first, \$\$\$ and years to resolve...

Monetizing IP

Three major forms—*all effected by contracts*

1. **Licensing**—legally, «renting» the right to use IP
2. **Assignment**—legally, transferring the right to someone else. Note that once a right is assigned, the assignor does not automatically retain rights
3. **Franchising**—packaging a business concept in such a way that a franchisee can replicate. Typically includes trademark license to brands and possibly designs, copyright license to use training and marketing materials, and license to know-how

Resolving IP disputes

The job of «policing» the market is the right holder's, and disputes are settled either by negotiation or in **civil court**.

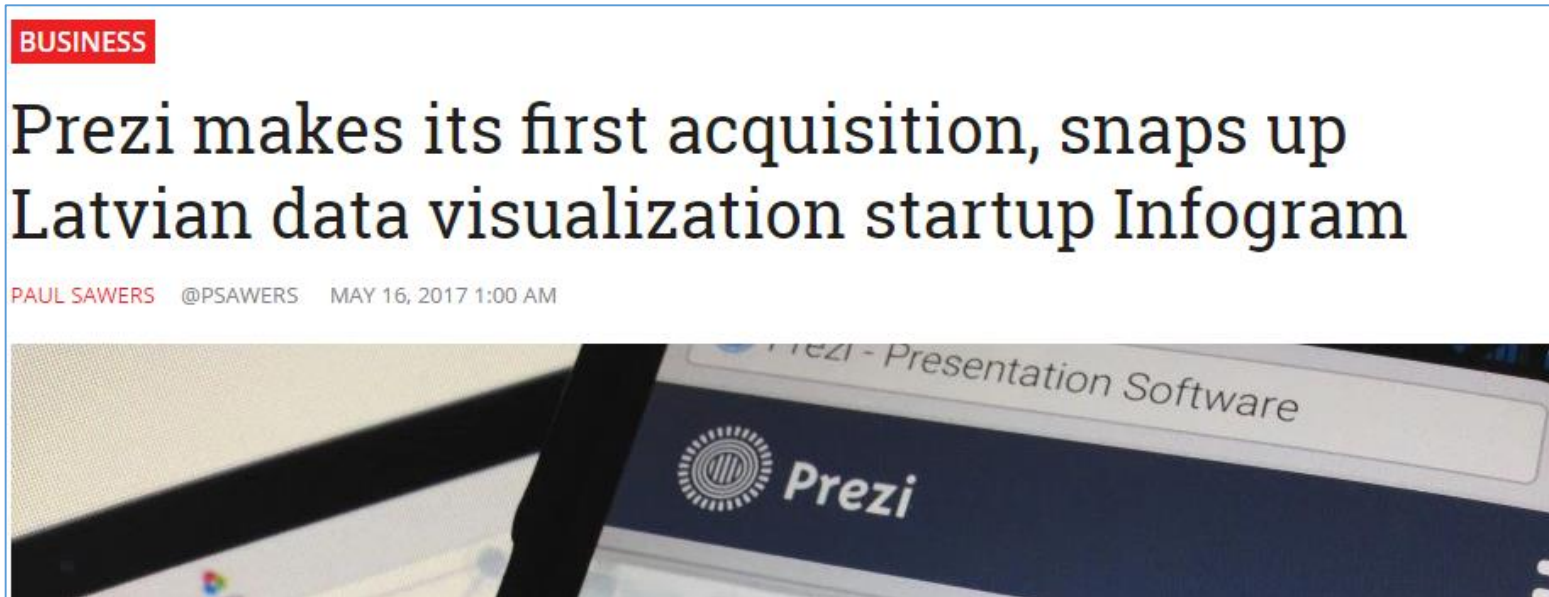
The state gets involved only if counterfeiting or other criminal activity

Normally disputes start (and end?) with a **warning letter** to the alleged infringer. If there is a lawsuit, it is in the country / city of infringement or the place where the defendant is doing business. Yes, displaying at a trade show counts

Ready for exit!

- Founder, inventor, employee issues resolved
- IP portfolio has been created and managed
- IP is being monetized
- Disputes (if any) are being addressed

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Part IV: Exit

Halfdan L. Holte



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Exit

1. Disclosure (company, seller, existing shareholders) and due diligence (investor, buyer)
2. Transaction documents
 - a) Reps and warranties
 - related to ownership and use of IP
 - related to IP infringement
 - b) Covenants and other provisions governing the parties' conduct relating to IP and IT assets after signing and closing
 - c) Ancillary IP documents (*e.g.* transitional licenses and services arrangements)
3. Post-closing issues

Our role - What can we offer?

Areas of responsibility

1. Understanding the transaction structure and its implications for the target's IP assets and liabilities
 - Share purchases and mergers
 - Public vs. private
 - Carve-out transactions
2. Facilitating and conducting IP due diligence, including identifying and evaluating relevant IP assets and liabilities, and preparing an analysis of the results
3. Drafting and negotiating the IP and IT aspects of the purchase or merger agreement, including representations and warranties, and covenants
4. Drafting and negotiating any ancillary IP or IT agreements, including licenses and transition services agreements
5. Coordinating any required post-closing IP matters, such as IP prosecution and maintenance



Disclosure and due diligence

Company's perspective

- Non-disclosure (confidentiality) undertaking of the buyer/investor
- Full disclosure?
 - Confirmatory due diligence?
- Data room
 - Access: Copy and/or download?
- IP documentation

Buyer's/investor's perspective

- Request list
- Focus:
 - Validating the business reasons for the proposed transaction
 - Identifying IP-related liabilities
 - Identifying IP related obstacles to completing the transaction
- Areas of review and analysis:
 - Registered/unregistered owned IP
 - Third-party IP
 - IP disputes
 - IT assets

Due diligence evaluation

Key questions for the buyer and its advisers

Does the company actually own the rights it is purporting to own? (Territory, royalties etc.)

Are the key brands protected adequately? And are these protections then reflected in the registrations and filing policy? (Territory, term, licenses etc.)

How often are new patent filings being made? Are there any patents that are nearing the end of their term? (Territory, term, fees etc.)

Will sale of or investment in the company result in any of the IP rights being terminated? (Assignment and change of control etc.)

Will any IP rights need to be shared? (House marks, patents etc.)

Reps and warranties (1)

Reps and warranties reflect the allocation of risk between the parties

From the buyer's perspective; key purposes of IP reps and warrants (similar to other reps and warranties)

If, prior to closing, the buyer/investor learns that the IP reps and warranties are untrue, to a degree of materiality as agreed in the transaction documents, it may not be required to consummate the transaction

If the IP reps and warranties are untrue, the buyer may be entitled to be indemnified post-closing for any damages arising from such misrepresentation

Qualifiers? (Materiality, knowledge, reps limited to registered IP rights etc.). Normally (as with most other M&A transaction), it boils down to the parties' relative strength

Reps and warranties (2)

Standard reps and warranties:

Sufficiency of IP assets

IP ownership

Validity and enforceability

Non-infringement

Trade secrets and confidential information

Target company's IP agreements

Compliance with data protection and privacy laws

Use of open-source software

Proprietary software and IT systems

Specific indemnities?

Generally, based on findings in the due diligence

Limitations on liability?

Carve-out for matters known to the buyer and its advisers?

Time limitations?

Amount thresholds?

Pre-closing

Interim operating covenants

IP portfolio management provision

Third-party consents

Other DD findings



Ancillary IP and IT agreements

For carve-out transactions;

- License agreements

- IP assignment agreements

- Transition services agreement

These ancillary agreements are typically

- Mutually agreed on/before signing

- Attached as exhibits to the relevant purchase agreement

- Signed and delivered at closing



Post-closing issues

IP issues that the parties were unable to fix before closing

Transfers of any IP that remain owned by the seller or its affiliates, but should have been transferred to the target company or buyer as part of the transaction (wrong-pocket provisions)

Prosecution and maintenance of the target's IP

Non-compete and non-solicitation

Thank you !

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