Converting Patents from Concrete Shoes to Lifelines
Business Objectives Need to Drive IP Strategy
Business Objectives Drive IP Strategy in Large Companies

And should drive IP strategy in small emerging companies.

Consider how IP Assets can drive ROI for your firm.
Why Patents end up being Concrete Shoes?
When Patents Can Be Lifelines?
How to Make Informed Decisions
Patents as Concrete Shoes

Poor IP Strategy Can Weigh Down Your Business
Poor Patent Strategy Can Sink Your Business

Useless Patents waste valuable resources

- Patents are costly and time consuming to obtain
- Poor drafting limits protection
- Territorial Protection requires a new patent in each country of interest
- There are many avenues to invalidate an issued patent

Poor Management Shrinks Business Value

- Joint Ownership without Single Voice?
- Failure to Assign Patents to Company
- Possible Exposure of Trade Secrets
- Showcasing Competitive Advantage
Patents as Lifelines

IP Assets Can Help Your Firm Obtain Capital and Encourage Business Relationships
## Patents Can Drive Funding and Relationships

<table>
<thead>
<tr>
<th>Fundraising</th>
<th>Relationships</th>
</tr>
</thead>
<tbody>
<tr>
<td>● Venture Capital</td>
<td>● Customer</td>
</tr>
<tr>
<td>● Litigation Finance</td>
<td>● Joint Ventures</td>
</tr>
<tr>
<td>● Loan Collateral</td>
<td>● Cross-Licensing</td>
</tr>
<tr>
<td>● Field of Use Licensing</td>
<td>● Negotiation Leverage</td>
</tr>
<tr>
<td></td>
<td>● Defensive Strategies</td>
</tr>
</tbody>
</table>
Patents Can Encourage Business Relationships
Joint Ventures

- Typically the each company contributes something of value to a newly formed entity, one designed to oversee the new business endeavor.
- Each company has access to capital, technical, management and intellectual property (IP) resources. To expand their respective business capabilities.
- Allows the parties to **attain otherwise unavailable rights** to if either acts alone.
- **Patent Rights can be a key asset driving consideration when engaging in a joint venture.**
- Care should be taken in forming these relationships as to ensure each party has access to, and receives value from the relationship.

Cross-Licensing

- Two (or More) parties *grant each other access to patent rights* that the other needs
- Examples:
  - Google and Samsung have a broad cross-licensing agreement for patents related to the Android OS
  - Patent Pools - Multiparty portfolios of patents, often standard essential patents
- Key benefits include:
  - Bundling complementary technologies
  - Enhancing interoperability
  - Access to new markets and Monetization of unused or underused assets
  - Lower development/production costs.
- Cross-licensing schemes may create extra administrative headaches
- Can also be a *barrier to entry* for startups and may receive *regulatory scrutiny*.

Patents Can Encourage Customers to Purchase

- Patents can be a **key indicator of quality** in product marketing
- Can provide assurance that your product will not become obsolete due to a competitor
- Can reduce customer **risk of patent infringement**
  - Particularly important in patent-centric industries such as pharmaceuticals.
  - Patent Indemnification from the Uniform Commercial Code
Defensive Portfolios/Strategies Can Be Key Bargaining Chips In Negotiations

- Bargaining Chip if Threatened with Patent Infringement
- May Lead to Better Settlement Terms
- Opportunity to Cross-License Technology from Competitor that Would Not Otherwise be Available
- Also may be available as counterclaims if competitor initiates litigation.
- May also prevent a competitor from obtaining exclusivity for their developments.
Raising Capital Using Your Patent Portfolio
59%

Is the increase in probability of raising VC funding for startups **after approval of their first patent**.

Joan Farre-Mensa, et al, "Do Patents Facilitate Entrepreneurs' Access to Venture Capital?"
“Patents are particularly beneficial to early-stage startups, those founded by inexperienced entrepreneurs, those located in states with a large startup population, and those operating in the IT sector.”

“This evidence suggests that patents help **mitigate information frictions between startups and investors**, acting as catalysts that help set startups on a path to success and **more than doubling their unconditional IPO probability.**”

Patents and Venture Capital

- VC funds can view patents as de-risking an investment
- Related to Venture-backed Exits, a “positive effect of patents on firm success for life science firms but not for information technology firms. Within the sample of life science firms, the effect of having any patent is substantially larger than the effect of having a patent.”
- It is important to know what venture capitalists in your industry/ geography look for
Patents Are A Key Criteria for SBIR Funding

SBIR Phase I - Feasibility

- Average awards between $150k-$225k (depending on agency)

SBIR Phase II - Commercialization Plan

- Patents are an enumerated consideration for SBIR Phase II funding for NIH reviewers.
$850,000

Mean Value of SBIR Phase II Grant from NIH

Patents Can Serve As Loan Collateral

- Patents Have the Attributes of Property
- Strong Bankruptcy Protection Lessens the Risk of Lending to Patenting Companies
  - More Attractive Borrowing Interest Rates
  - Studies of show a correlation between patents pledged as collateral and increases in firms’ R&D Expenditures
Field-of-Use Licensing to Other Markets

- Patents Have the Attributes of Property
- Allows for alternative revenue streams for companies, particularly in adjacent or non-core markets while pursuing core market strategies:
  - Example: MRI companies licensing MR technologies for Oil & Gas Exploration
Use Data to Decide if Patents Will Drive Value for Your Business
Example: **Understand How VC’s Value IP**

- Who the Most Active Investors for Companies Like Yours?
- How Often Do Portfolio Companies of these Investors File Patent Applications?
- Do Valuations Differ Based on Patent Portfolio Size?³
  - Data shows that California companies patent on average more than in other states
  - Venture-backed Companies patent more than others
  - Startups with patent assets tend to have their first application field before even receiving any reported funding.
  - Data shows a significant positive relationship between patent assets, and
    - receiving investment **and**
    - being acquired.
It is critical to know how those funding your business view IP, and there is no single best strategy.
When Aligned with Business Strategy, Patents can Drive Additional Business Value
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References