Startup name: ....

Checklist for Angels concerning Intellectual Property[1]

The value of a technology startup is in most cases strongly dependent on the intellectual property (IP) and know-how rights the startup owns. The following checklist shall be a basis for the assessment of these rights.

	n.a.	☹☹	☹	😐	☺	☺☺
Protection of software						
Quality and quantity of the software rights[2]	☐	☐	☐	☐	☐	☐
Patents and patent applications[3]	☐	☐	☐	☐	☐	☐
Extent and type of third party software components, particularly open source software[4]	☐	☐	☐	☐	☐	☐
Quality of the protection of the source code[5]	☐	☐	☐	☐	☐	☐
Protection of hardware						
Quality and quantity of the hardware rights	☐	☐	☐	☐	☐	☐
Extent and type of third party hardware components[6]	☐	☐	☐	☐	☐	☐
Protection of trademarks						
Quality and quantity of the trademarks and trademark applications[7]	☐	☐	☐	☐	☐	☐
Validity of the registered trademarks[8]	☐	☐	☐	☐	☐	☐

1 Note that this checklist highlights important legal issues concerning IP in the context of technology startups, but is neither meant to be exhaustive nor does it not replace professional advice.

2 Ideally, the concerned startup has comprehensive ownership rights in all relevant software. In practice, however, this is quite often not the case. Insofar, one of the most important tasks of a due diligence before investing in a technology startup is to assess to what extent core intellectual property rights are not owned by the startup. Maybe some employees or consultants did not transfer software rights properly to the startup, or software rights are actually not owned by the startup, but only licensed from a third party, and the licensing agreement can be terminated easily or has an unclear scope. The list of potential challenges is long.

3 Patents can improve the strength of the software protection substantially. In case of patents, the scope of protection, the geographic coverage, and the legal status of the patent(s) should be checked. In Europe, software patents granted to startups are rare.

4 In many cases software of startups includes third party components, particularly open source software. The licensing terms of the third party software components and their impact on the software distribution should be closely examined. E.g. so-called copyleft open source software may require the startup to distribute the software under the original open source license which can obviously be a deal breaker.

5 It has particularly to be considered to what extent (i) employees and customers have access to the source code of the software and (ii) the source code is protected in these cases by appropriate agreements (e.g. by source code escrow agreements or non-disclosure agreements).

6 If hardware components have to be purchased by the startup, it is key to avoid bottleneck situations.

7 The scope of protection, the geographic coverage and the legal status (trademarks or trademark applications) should be examined. If the scope of protection or the geographic coverage is not satisfactory and cannot be extended in order to ensure a successful distribution of the relevant products or services, a rebranding could be an option.

8 Granted trademarks may not be valid (e.g. in case of a non-use of the trademark in the USA).

	n.a.					
Protection of other IP						
Domain names	☐	☐	☐	☐	☐	☐
Know-how [9]	☐	☐	☐	☐	☐	☐
Designs or other IP	☐	☐	☐	☐	☐	☐
Contractual limitations						
In-licensing [10]	☐	☐	☐	☐	☐	☐
Out-licensing [11]	☐	☐	☐	☐	☐	☐
Other aspects of contractual limitations [12]	☐	☐	☐	☐	☐	☐
IP Strategy						
Matching between products/services and IP of the startup [13]	☐	☐	☐	☐	☐	☐
Filing and prosecution strategy [14]	☐	☐	☐	☐	☐	☐
IP of third parties						
Freedom to operate [15]	☐	☐	☐	☐	☐	☐
Quality of monitoring [16]	☐	☐	☐	☐	☐	☐
Disputes						
Claims against the startup made by third parties [17]	☐	☐	☐	☐	☐	☐
Claims against third parties made by the startup	☐	☐	☐	☐	☐	☐

9 If the technology of the startup is not protected by patents, it may be important that appropriate non-disclosure agreements are in place.

10 If the startup is required to license key components from third parties, the relevant licensing terms have to be considered carefully. Licensing agreements may be risky for several reasons (e.g. due to termination rights or in case of a potential liquidation of the licensor).

11 Particularly early stage technology startups sometimes grant to third parties licenses under disadvantageous conditions. E.g. long-term exclusivities for certain regions or the lack of appropriate termination rights may be deal breakers.

12 Other contractual limitations such as purchase rights in the relevant IP or termination rights may be deal breakers.

13 E.g. the distribution of a product may be limited due to trademarks or patents of third parties in certain territories such as the US or Asia.

14 A filing and prosecution IP strategy is valuable, but rather seldom in case of technology startups. Lack of professional support leads to an increased risk position. The due diligence should in this case be made more extensively.

15 The freedom to operate (FTO) may be limited in certain countries, regions or distribution channels. In a FTO analysis, the investor evaluates whether there are IP rights that would stand in the way of the development, manufacture, distribution and marketing of a product. Due to business patents that may particularly be granted in the US, there may, e.g., be uncertainties as to the extent of FTO. Moreover, as there are no worldwide rademarks, the distribution and marketing of a product may be limited in certain countries or regions.

16 Monitoring is often costly and time-consuming and therefore seldom properly made by early stage startups

17 If the concerned startup is claimed by third parties, the respective correspondence can contain valuable information on challenges such as the FTO.