

# Patents, Financing, and Law

## 1. Patents

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**Q:** Should emerging companies seek patent protection for business methods these days?

**A:** If your goals are to get rich quick by licensing your invention, no—that's just far too unlikely. If building a solid technology base for your company is the objective, then the answer is probably yes. A family of patents on a single invention can create very effective market-entry barriers to competitors, can demonstrate business acumen and increase company value, and can be used as collateral for secured debt.

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**A:** Over the past year, there has been a flood of newly filed patent applications for business methods. There exists a favorable environment for obtaining patent protection because there is not a lot of relevant prior art to search. However, because of this, special attention is paid to the quality of examination by the USPTO. Nonetheless, you should make certain that the invention merits the substantial investment required to seek the patent.

## 2. Venture financing

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**Q:** How do I decide how much money to ask for?

**A:** It depends. If there's a lot of money chasing your deal, take enough to finance early-stage goals. If there is little, grab what you can get for the longer haul. Money has

a cost. In venture financing, it's equity. How your company is valued will determine what you give up. In the beginning, seek enough to achieve the immediate goals of your business plan. Your company should be valued at a higher price as you meet these goals, so future capital needs should be cheaper.

But be cautious: market conditions can change, and you don't want a down round. Rely on experienced people to help you make this call.

## 3. Strategic finance

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**Q:** As we begin the capital raising process, should we consider strategic investors?

**A:** Absolutely. A strategic partner—and certainly a recognized industry leader—will enhance your ability to attract institutional venture capital dollars. In fact, many financial investors view the participation of a strategic player as a precondition to their own investment. A strong management team that has been successful in the implementation of its business plan is better able to leverage its relationship with its strategic investor to secure subsequent round financing at a more favorable valuation.

## 4. Strategic partner

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**Q:** How can I use a strategic partner as part of my overall business strategy?

**A:** Early adopters of your technology may become strategic partners. That is, your relationship with a partner may expand into areas beyond licensing of your software to joint marketing and distribution initiatives or perhaps equity ownership. You



should seek contract provisions that will permit you to exploit your partner's competitive strengths after the partnering ends (e.g., market information, customer lists), while avoiding those that may hinder your long-term growth, such as restrictive exclusivity provisions.

## 5. Avoiding lawsuits

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**Q:** Can my company avoid discrimination lawsuits and jury trials?

**A:** Yes, with company-sponsored alternative dispute resolution (ADR) programs agreed upon by the employee. The employer may mandate such agreement as a condition of employment or continued employment. ADR can be tailored to company needs as long as it is fair and reasonable, and affords similar remedies as do courts. Mediation and/or arbitration may be utilized. Pluses: quicker resolution, lower costs, avoidance of juries, unlikelihood of punitive damages, and finality of the award. Negatives: limited discovery and generally no effective appeal from an award.

## 6. Insurance law

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**Q:** Should my company have insurance

to cover damage from a computer virus?

**A:** Companies damaged by corruption of files and servers by a computer virus may have insurance coverage under one or more of their insurance policies. A number of policies specifically provide coverage for these risks. Coverage may also be available from first-party property insurance policies, particularly where those policies are written on an all-risk basis. Business interruption coverage may be available for any suspension of operations that is related to the virus. Finally, general liability insurance policies also may provide coverage to the extent that third parties bring claims against the company.

### 7. Background check

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**Q:** What are the rules on background checks on prospective employees?

**A:** Reference checks are often met with name, rank, and serial number, and many employers contract out background/reference checks on applicants to investigative services. This process is full of legal pitfalls for the unwary. For example, outsourced background checks are covered by the Federal Fair Credit Reporting Act. Employers must have applicants execute an advance, written authorization before a check is performed, and follow federal guidelines (including notice to the applicant) before denying employment. You have to be careful and know the rules. ■

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