



| PATENTS & TRADEMARKS |



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When business, technology, and IP law intersect, Steven Sereboff is an expert relied upon by multibillion-dollar multinationals, medium-sized public and private companies, and growth-oriented startups. His practice focuses on how business can best leverage patents, trademarks, trade secrets, and copyrights. Sereboff and his team help clients manage IP risks, mitigate and resolve IP disputes, secure IP rights throughout the world, and get IP deals done. Sereboff earned a BSEE from the University of Maryland and his law degree from Boston University.

Intellectual Property Fundamentals for Startup Investments

The danger signs and myths that angels and accredited investors should be mindful of when examining intellectual property

As Managing Director of a venture capital firm, I apply a set of pragmatic principles when considering investing in a startup. Most important to me are the market and the management team. Of course, as an intellectual property attorney for more than 25 years, I also look at the startup's IP situation. Most people are surprised, however, that I usually do not much care about IP for a startup, and in fact often reject deals when the startup has worked hard to lock up their IP rights. I have applied this unconventional

covers numerous types of rights, and each is predicated upon varied and dynamic public policies. IP rights apply to businesses varying in size from sole proprietors to the largest of international conglomerates. IP rights also apply to a variety of markets, including technology, entertainment, chemistry, and health care. With a wealth of IP options available, it makes sense to tailor IP strategy and tactics to the stage of the business and to its markets.

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approach as both an investor and a lawyer, and am happy to share some of these insights with others. This article therefore address three topics: (1) what an investor should expect to see in a startup, (2) some danger signs, and (3) some IP myths.

Even experienced angel investors can find intellectual property law complex and mysterious. IP law

pertise from success with their own mid-sized and larger businesses. While some of that expertise can help guide an angel's views about what a startup should be doing with IP, usually it is better to recognize that a startup's strategy should be much different from that of a mid-sized or large company. Furthermore, the right strategy for one market cannot determine the strategy

for a different market.

5 Critical IP Items That an Angel Should See in Almost Every Startup

1. Trademark filing on the company name and product or service name.
2. Between one and three patent applications, and probably just provisionals.
3. Contracts signed by the founders assigning all IP to the company.
4. Contracts signed by each employee and contractor assigning the IP they create to the company.
5. Good domain names, App Store names and/or Facebook handles corresponding to their core brands.

5 Danger Signs an Angel Should Watch for in a Startup

1. Founders retain IP rights.
2. IP rights are in a separate holding company.
3. Money wasted on too many patent filings.
4. Money wasted on too many trademark filings.
5. IP litigation, especially as plaintiff.

6 Myths About IP and Startups

Myth 1. There must be freedom of

operation.

- ▶ At seed and Series A stage, this usually does not matter.
- ▶ Series B stage or later will consider it and resolve the issues.
- ▶ Most startups fly under the radar because of the enforcement costs and value.

Myth 2. Patents are all pretty much the same.

- ▶ Patent application (pending) is not the same as a patent.
- ▶ Provisional application is not the same as a regular application.
- ▶ Design patent is not the same as a utility patent.

Myth 3. You only need to read the title and the abstract to know what the patent covers.

- ▶ It's the claims that count.
- ▶ The text and drawings are secondary to the claims.
- ▶ Even expert patent attorneys can struggle to understand what a patent covers.

Myth 4. The opinion of the company's IP counsel is meaningful.

- ▶ It usually is a "Reader's Digest" version.
- ▶ It usually is taken out of context by management and often quoted without permission.

Myth 5. Patents provide startups with a competitive advantage.

- ▶ Rarely are startups in a position to enforce their patents.
- ▶ Mostly, patents are there for when the business has become mid-sized, and that's usually after the angel exits.
- ▶ Enforcing patents costs millions and takes years.
- ▶ Patent pending has no real value, but it can provide good optics.

Myth 6. Trademarks are less important than patents.

- ▶ Bad branding reflects poor decision-making.
- ▶ Trademark suits usually will come earlier than patent suits.
- ▶ In the long run, the brand is usually more important than the technology.

None of these are absolutes, and in some situations these points could be completely wrong. Companies often spend many years in startup mode, and that too can require bending of the rules. Likewise, a super angel might want to bend the rules.

In closing, if you got this far, it suggests that this article has been interesting and helpful. That leads to another plum – invest with people you know and trust, and especially people who bring expertise to the due diligence process and can help contribute more than just money to the startup's success.

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