



Wilson Sonsini Goodrich & Rosati
PROFESSIONAL CORPORATION

Center for Innovation and Entrepreneurship

Legal Essentials for Start-Ups

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February 21, 2008

Legal Essentials For Start-Ups

- Corporate and Securities Matters
 - Entity Selection
 - Corporate Formation
 - Founder Ownership
 - Equity for Employees
- Intellectual Property and Related Matters
 - Intellectual Property Ownership and Transfer
 - Noncompetition and Nonsolicitation Restrictions
 - Confidentiality and Trade Secrets
 - Intellectual Property Development and Licensing
 - Intellectual Property Protection



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Corporate and Securities Matters

Craig Sherman

Entities

- Using an Entity
 - What is an entity? – legal “person”
 - Why use an entity? – limited liability
 - What types of entities are there?
 - ▶ corporation
 - ▶ partnership
 - ▶ limited partnership
 - ▶ limited liability company
 - ▶ S corporation

Entities

- Using an Entity
 - Corporation
 - ▶ Most common
 - ▶ VCs and other investors understand
 - ▶ Negatives
 - Two levels of tax
 - Cannot realize losses
 - Limited flexibility

Securities Laws

- Securities Laws
 - Federal and state laws
 - Every offer or issuance of a security
 - Registration requirement
 - Register *OR* find an exemption
 - Disclosure, **NOT** merit review
 - ▶ authorized stock
 - ▶ issued stock

Founder Ownership

- Founder Ownership
 - How do founders get stock?
 - What consideration is paid?
 - Vesting or not vesting?
 - ▶ investors often require
 - ▶ avoid free-loading
 - ▶ need the equity to replace departing founder
 - Tax issues for vesting stock
 - ▶ 83(b) election
 - Options for founders?

Founder Ownership

- Founder Ownership
 - Do it early
 - Value is low
 - ▶ tax issues
 - ▶ accounting issues
 - Avoid disputes as to ownership

Founder Ownership

- Founder Issues
 - Avoid informal promises of equity
 - Avoid promising percentages
 - Advanced expenses
 - Paying back wages
 - Avoid 50/50 partnerships

Employee Equity

- Why give employees a stake?
 - Motivation – the potential big payoff
 - Team spirit – “skin in the game”
 - Compensation – tie compensation to collective success
 - Conserve cash – cash is king for startups

Employee Equity

- Why options?
 - Lock in low price
 - Upside with no downside
 - No current out of pocket expense
 - Delay income tax



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Intellectual Property and Related Matters

Parag Gheewala

Illustrative Example

- Andre Proneur is starting up a hot new technology company, STARTMEUP SOFTWARE INC.

Genesis of the Business

- While a software engineer for Monoposoft, Andre develops the business plan for Startmeup and the designs for Startmeup's first product.
 - Can Monoposoft claim ownership to the business plan or the product design?
 - Is Andre prohibited from starting the business because of a non-compete provision in his Monoposoft employment agreement?
 - Will Andre's activities for Startmeup result in the disclosure of Monoposoft's trade secrets or otherwise violate any confidentiality provisions of his employment agreement?

Formation of Corporation

- Andre formally incorporates Startmeup Software Inc. to pursue his business idea.
 - Did Andre transfer the technology and intellectual property that he created prior to formation (i.e., the business plan and product design) to Startmeup?
 - ▶ Thorough description of assets
 - ▶ Consideration
 - ▶ Further assurances

Job Offers

- Startmeup offers the job of Chief Technology Officer to Andre's former Monoposoft colleague, Angie Neer.
 - Is Startmeup prohibited from hiring Angie because of a non-solicitation or no-hire provision in Andre's agreement with Monoposoft?
 - Is Angie prohibited from working for Startmeup because of a non-competition clause?
 - Will Angie "taint" Startmeup's development efforts?

Employees

- Angie accepts the offer and begins to work for Startmeup.
 - Did Angie sign an employee agreement that protects Startmeup's technology and intellectual property?
 - ▶ Ownership of inventions and related intellectual property
 - ▶ Confidentiality
 - ▶ Non-competition and non-solicitation
 - ▶ Disclosure of prior inventions
 - ▶ No conflicting obligations
 - ▶ Further assurances

Outside Consultants

- Startmeup contracts with Connie Sultan, an independent software developer, to write software code for a component of the Startmeup product.
 - Did Connie sign an independent contractor agreement that protects Startmeup’s technology and intellectual property?
 - ▶ Assignment of created technology and related intellectual property
 - ▶ Assignment or license of pre-existing technology and related intellectual property
 - ▶ Confidentiality and noncompete
 - ▶ Further assurances

In-Bound Licenses

- Startmeup contracts with VendorSoft to incorporate VendorSoft's software product into Startmeup's product.
 - Does the agreement with VendorSoft give Startmeup sufficient rights to the VendorSoft product?
 - ▶ Scope of license grant
 - ▶ Financial terms
 - ▶ Term and termination
 - ▶ Miscellaneous

Freeware – Open Source

- To speed development of its product, Startmeup incorporates “free” software code that is available on the Internet.
 - Are there license restrictions on the “free”?
 - If open source, what are the restrictions?
 - ▶ Resulting software becomes open source
 - ▶ Required to distribute source code
 - ▶ Attribution requirements

Out-Bound Licenses

- Startmeup licenses a portion of its technology to ABC Corp. to bring in some much needed cash.
 - What is the scope of the license grant?
 - What are the financial terms?
 - What additional obligations have been assumed by Startmeup (support, maintenance)?

Intellectual Property Protection Strategy

- During a presentation to investors, Andre states Startmeup is developing an overall strategy for the protection of its intellectual property.
 - What sort of intellectual property is important?
 - ▶ Patents – technology manufacturing
 - ▶ Copyrights – software and multimedia
 - ▶ Trade Secrets – Materials and manufacturing
 - ▶ Trademarks – brand and consumer product
 - What are the roadblocks?
 - ▶ Statutory requirements and restrictions
 - ▶ Third party intellectual property rights

Suite of Agreements

- Basic agreements that can alleviate many of these issues:
 - Non-Disclosure Agreements
 - Employee Agreements
 - Assignment Agreements
 - Independent Contractor Agreements
 - In-License Agreements
 - Out-License Agreements
 - Distribution Agreements



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