

Series 1

# Intellectual Property and Your Start-Up Company

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## Three-Part IP Series

- (1) Intellectual Property and Your Start-Up Company
- (2) Practical on Patents and Trade Secrets
  - How to's, Dos, and Don'ts
- (3) Practical on Copyrights and Trademarks
  - How to's, Dos, and Don'ts



## What IP is of Concern?

Every start-up company has IP that must be properly handled:

- Patentable invention (commonly thought of)
- Trademarks (commonly thought of)
- Copyrights
- Trade secrets

# When Should We Think About the IP?

## Pre- or Post-Company Formation?

- The founders should determine, as much as possible, the following before the enterprise is formed:
  - The IP by type being contributed by each of the founders: the most important are patentable inventions, copyright material, and trade secrets
  - The IP to be developed by the enterprise and when: first product or some future product
  - When to make founder contributed IP company IP

# Founder Equity Contributions and IP

## Founder Contributions for Equity

- Money
- Ideas
- Potentially Registrable IP
  - Patentable subject matter
  - Copyright material
- Trade secrets for the enterprise

## What about trademarks?

- Value based on “use”



## Outside Investment and IP

Premise: Company vision and ideas (management), and IP (technology) drive outside investment.

Outside investment types for early-stage companies:

- Friends and Family
- Angels
- Venture Capitalists

Control of IP:

Each of the above, if sophisticated, will not expect to have direct control of, or any claim to, company IP.

▪ ***However, none of the above will invest unless the company owns its IP.***

▪ Some overly-aggressive investors may attempt to include a “claw-back” on IP, a means to obtain ownership of IP, under certain specified circumstances, such as liquidation or dissolution of the company.

## Equity, Board Membership, and IP

The Certificate of Incorporation, By-laws, and amount of stock that is distributed, along with any other contracts agreed to by stockholders, will determine board membership

- The board controls the assets of the company, including use and disposition of IP
- Unintentional loss of board control by founders to other stockholders would result in loss of control of company IP

Board member equity: Options to purchase common stock for independent directors as compensation for their services (not investor-directors or founders)

# Advisory Board Compensation and IP

## Advisory Board compensation

- Money
  - Hardest for a start-up
  - Impact on IP?
- Equity
  - Easiest for a start-up
  - Type of Equity
    - Options to purchase common stock
  - Impact on IP?





# Agreements

## Employee agreements and IP (*See Sample*)

- IP created and developed on company time using company resources
  - “Work for Hire” and “Assigned” to the Company
- Confidentiality provisions

## Third Party/Vendor agreements and IP

- The company “owns” IP it paid to have developed
  - “Work for Hire” and “Assigned” to the Company
- Company can consider licensing back certain aspects of what was developed with limitations



# Agreements

## Joint Venture/Collaborative agreements and IP

- Protect contributed IP
- Know technology state in the area of interest of the parties
- If joint ownership of developed IP, start-up must consider relative size of its partner
  - Need protections in agreement



# Agreements

## Nondisclosure/Confidentiality agreements and IP (*See Samples*)

- Start-ups will use and see this type of agreement the most
- Start-ups may find a potential investor reluctant to sign
- 2-4 pages
- Key limitation is that whatever the start-up discloses under the NDA/CA cannot be used by the recipient for its benefit without the prior written consent of the start-up



# The Next Phase of the Company and IP

## IP Enforcement

- Expensive and avoid at all costs (if possible)

## Out-Licensing IP

- Revenue generation
- No warranties regarding IP

## Merger/Acquisition

- Know the IP the company owns
- Do not have equity distributed or agree to contractual restrictions, if possible, that would allow an outside investor to stop transaction

# The Next Phase of the Company and IP

## Company dissolution

- IP has value
- Distribution according to determination at company formation



## Questions?

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