

Best Practices for Start Ups: Using Basic Legal Documents

Lunch with FredLaw presented by Coco CoWorking and
Collaborative Space

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Overview

- What is a Contract
- General Tips
- Non-Disclosure and Confidentiality Agreements
- Consulting Agreements
- Indemnification
- Intellectual Property Assignments

What is a Contract?

- Offer + Acceptance + Consideration = Contract
- An exchange of promises
- Is an email an contract?
- Can a verbal agreement be a contract?
- Should it be in writing?

General Tips

- Read your contract:
 - You should be able to understand what your contract says
- Provisions to always include:
 - Party names
 - Signature blocks
 - Effective date
 - Time frame/term
 - Description of what is to be provided & by whom
 - What is the consideration and when will it be paid
 - Termination rights and obligations

General Tips (cont.)

- Do it right and in writing and don't make promises you might not want to keep.
 - “Back of the napkin” deals (e.g. “you'll get 10% of the company if you ...”) often come back just before a financing or acquisition.
- Generally, courts cannot look beyond the “four corners” of a contract when interpreting ambiguities in the agreement, so make sure:
 - Terms of the agreement are clear
 - All agreed upon terms are memorialized in the agreement

Non-Disclosure and Confidentiality Agreements

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When do you use a non-disclosure agreement?

- Any time you are sharing proprietary or non-public information with a person who is not an employee and is not already subject to a non-disclosure agreement.

Examples:

- Sharing details of business plan or capitalization
- Sharing details regarding R&D, IP, or other proprietary information
- Plant tours, sharing a prototype or other observable and useful information

What should a non-disclosure agreement cover?

- A non-disclosure agreement should:
 - Apply to (a) trade secrets, and (b) other non-public information. A “trade secret” is information that is valuable because it is not publicly available and subject to reasonable efforts to protect its secrecy
 - Prohibit reproduction or disclosure of non-public information except in limited circumstances
 - Prohibit unauthorized uses of non-public information

Issues re: non-disclosure agreements

- Mutual?
- Duration?
- Permitted Uses?
- Return/destruction?
- Disclosures required by applicable law?
- Independent discovery?

Non-disclosure agreement tips

- Develop your own form agreement and require any party who might have access to your idea(s) to execute it **before** sharing any information with them
- Savvy players will expect to sign a confidentiality agreement so if someone is shocked you asked, reconsider

Consulting Agreements



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When do you use a consulting agreement?

- One party is providing services to another party, for compensation, other than as an employee
- Examples include software development, management consulting, graphic design and artwork
- Sales representative agreements are a particular kind of consulting agreement that raise additional, unique issues

What should a consulting agreement cover?

- A consulting agreement should cover:
 - Compensation
 - Term
 - Services performed and applicable performance standards
 - IP ownership
 - Confidentiality
 - Risk allocation (indemnification)

Issues re: consulting agreements

- How to describe the services and deliverables?
- How is compensation determined, and what are the payment terms?
- Auto-renewal or expires at term?
- Can either party terminate, and under what circumstances?
- Under what circumstances, if any, can consultant use/re-use IP included in deliverables?
- Under what circumstances can consultant be required to re-perform work, refund amounts paid, or defend client from third party claims?

What is indemnification?

- “Indemnification” is a contractual obligation to reimburse another party for a liability. “Indemnification” also frequently includes an obligation to defend another party from a lawsuit brought by a 3rd party.
- Example – Agreement provides that Client is entitled to indemnification from Consultant if Consultant violates applicable laws. Government sues Client because use of Consultant deliverable violates the law. Consultant is obligated to defend and/or reimburse Client for this lawsuit.
- Indemnification is different than a lawsuit between the parties.
- Issues – What claims? For how long? Any limitation on amount? What is the process for making and defending a claim?

Intellectual Property Considerations

Why do intellectual property provisions matter?

- Intellectual property language is technical and not widely understood. Failure to appropriately obtain/maintain protect IP rights will negatively impact business valuation.
- As client, you want to make sure that you own all IP that you paid for and have the right to use all deliverables without permission from or payment to anyone.
- As consultant/provider, you want to make sure that client does not obtain rights to IP that is outside the scope of the project.

IP Assignments

- This is usually a simple uncontroversial document for founders and employees, but if it is not done at formation or prior to employment it can cause significant issues at financing or acquisition.
- Founders (and other service providers) should assign to the company all code, patents, business ideas and other intellectual property related to the company's business.
- All workers (employees or independent contractors and working owners) need to sign an IP assignment agreement at commencement of engagement.

IP Assignments (cont.)

- Work-For-Hire Provisions
- Consultants may request carve-outs and/or right to use developed IP.
- Get a confidentiality agreement and non-compete as well if you can
- Don't just rely on common law

Questions?



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