

Engineering Entrepreneurship: Working with an attorney

ENGR 4302/5302; EE 4302/5302



**WHAT EVERY ENGINEER
SHOULD KNOW ABOUT
STARTING A
HIGH-TECH
BUSINESS
VENTURE**

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- ▶ “Capital, talent and intellectual property are the steam, steel and barbed wire of the modern age. The most important job of lawyers for early-stage technology companies is preparing their clients so that they can attract, retain and protect those three essential assets of the new economy.”
 - James J. Greenberger, Attorney
- ▶ “The first thing we do, let’s kill all the lawyers.”
 - William Shakespeare – Henry VI, Part 2
- ▶ Lawyer jokes are OK!

Event/transaction	Importance of counsel	Make sure to get legal advice for	What can the entrepreneur do on his own?
Formation of the company	Medium-to-low	Structural questions and implications on taxes	The state formation of the corporation or LLC
Founders stock and agreements	High	Issuance of stock since securities laws are implicated	Determine terms for transfer, vesting, and allocation
LLC operating agreement	Medium-to-high	LLC operating agreements that implicate numerous founders and implicate decision-making authority	Single-member LLC operating agreements
Employee agreements	Medium-to-low	Decision-making on certain employment issues such as noncompetition, invention assignment, trade secrets, severance, and option issuance	Preparing standard agreements
Patents	High	Preparation of a patent or provisional patent application	Research of potential competing patent claims
Trademarks	Medium	Preparation of a trademark application	Doing a basic trademark search and domain name search
Third-party investments	High	Involvement of counsel is highly encouraged (particularly for investments by sophisticated parties)	Preparation of due diligence required by the transaction

WAITING TO “CLEAN UP” LEGAL ISSUES UNTIL AFTER FINANCING

What could happen

Rather than incur the expense of legal counsel, you'd rather wait until you get financing.

Watch out for

Unfortunately, many of the key choices and decisions that a new venture will be making at the start should be made with the counsel of competent startup counsel. Miss 83(b) elections? Out of luck. Forget to impose vesting? That founder who left the company probably won't just hand back those shares. Sold product in an international market? You may have lost your right to patent it. As a client once asked me, “So basically a startup that doesn't get good legal counsel up front is just out of luck?”

When meeting with and interviewing counsel, find out how they can provide payment terms that allow you to use their services but still give you time to raise startup capital. It is in your (and your attorney's) best interest to help form the company properly rather than have to try to clean up the company at a later point.

TIP: Trying to save costs by waiting to hire an attorney may cost you more in the long run.

WHO DO I NEED TO SIGN A NONDISCLOSURE AGREEMENT?

Your Attorney (or potential attorney)? Usually not. Attorneys (even potential attorneys) are bound by ethical standards limiting their ability to share confidential information. However, if you are not talking with the lawyer in her role as your attorney or potential attorney and have concerns about the lawyer's intentions, you may wish to have them sign a nondisclosure agreement.

Potential business partner? Most definitely. You should have mutual nondisclosure agreements in place before discussions begin.

Potential hire? Yes.

New employee? You should have a policy in new-hire documentation whereby new employees will sign confidentiality restrictions (among other restrictions).

Venture capital firm where I am sending my business plan? Ideally, you would want the firm to sign a nondisclosure agreement. However, most will not because they see so many similar business plans and presentations that could create problems for the firm. You can try, but know that industry practice is that venture capital firms don't and won't.

Your accountant or auditor? Probably yes, particularly in the case in which they will come into contact with proprietary information or data. However, many accountants (and lawyers) will include confidentiality provisions in their contracts with you.

HOW TO PAY WHEN YOU CAN'T PAY?

What could happen

You are considering hiring a startup lawyer to assist with formation matters and provide guidance in the early stages of your company. However, because you aren't planning to be profitable or have any startup capital (other than the bare minimums to start with), how can you afford to pay for legal services?

Watch out for

Most attorneys that specialize in startup work will be able to provide a deferral program that will allow you to use legal service for a set period and up to a set amount without being obligated to pay those fees. You agree, in turn, to pay when the company receives sufficient startup capital.

In many cases, a law firm will defer up to a set amount (i.e., \$15,000) of legal fees for up to a year while the company is seeking funding. In the event that the company is unable to obtain funding and is forced to terminate the business, you should ensure that the arrangement provides that the firm cannot go after the founders (a typical provision of the agreement).

The startup attorney will usually want to understand the goals of the business and plans for the future (i.e., Are you planning to seek venture capital funding? Who is on your founding team? What is your experience?). Because the startup lawyer understands that an entrepreneur will likely want to leverage the startup lawyer's contacts with potential investors, a prospective attorney will give a critical eye to the business to ensure this is or will be the type of startup he or she can truly refer to potential investors before taking on the engagement.

TIP: Most reputable startup lawyers will be willing to negotiate a deferral program for a startup seeking funding.

Selecting an attorney

- ▶ References!
- ▶ Interview
- ▶ On-line info
- ▶ Experience—time in business
- ▶ Degrees/law school
- ▶ Pay demands—what can you afford?
- ▶ Reputation
- ▶ Firm size
- ▶ Location
- ▶ Competencies/focus areas like corporate law, patents, tax, etc.

Lawyer pay scales

- ▶ \$250–\$550/hour
- ▶ Senior versus Junior attorneys
- ▶ Flat fee basis
- ▶ Contingency fee—often in lawsuits
- ▶ Define fees before engagement!
- ▶ Patent agents: ~\$170–240/h
- ▶ Paralegals: \$150–200/h

Patent Agent

- ❑ A professional who is licensed by the United States Patent and Trademark Office (USPTO) to provide patentability opinions and assist inventors in preparing and filing patent applications.
- ❑ Patent agents assist inventors with completing and submitting all patent-application paperwork, searching for prior art, writing the inventor's legally enforceable claims of ownership to the invention, revising rejected patent applications and deciding when it's best to abandon an application.
- ❑ However, unlike patent attorneys, patent agents cannot represent clients in other legal settings, such as prosecuting a patent infringement in court.
- ❑ Generally less expensive than attorneys.

<http://www.investopedia.com/terms/p/patent-agent.asp>

Control legal cost

- ▶ Limit time on the phone.
- ▶ Limit length of meetings.
- ▶ Have efficient meetings—Agenda!
- ▶ Make sure lawyer doesn't have to repeatedly ask you for the same item—keep track, save time.
- ▶ Plan. Avoid LMP. Sometimes, tasks can be given to a junior or a paralegal—saves \$\$.
- ▶ Can you do legal work yourself? You can assist and save lawyer time in many cases.
- ▶ Legal fees: Cost of doing business.
- ▶ Example: Round A financing ~15k.

NOT ALL LAWYERS ARE CREATED EQUAL

What could happen

You hire a good lawyer who isn't familiar with startup businesses. The lawyer is a general practitioner but isn't familiar with key issues affecting your company, such as stock option plans, 83(b) elections, or founders stock provisions.

Watch out for

Working with startup companies and small businesses is a specialized practice for lawyers. Hiring the right lawyer who has experience with high-tech startup companies can save you money in the long-run and protect you from countless issues.

Be sure to ask any potential lawyer what experience they have with specific business and legal issues that affect high-tech startups. You may want to ask for client references to other high-tech startup clients. Additionally, if you are looking to find startup capital for your business, you may want to inquire into the strength of a lawyer's contacts in the investment communities.

TIP: Find the right lawyer with the right experience for your startup.

Confidentiality

- ▶ Corporations are clients—not the shareholders
- ▶ Confidentiality: “Attorney–client privilege”
- ▶ Professional duty of confidentiality=General
- ▶ Business details, including design, salaries, strategy, customers, markets, etc. are secure with your attorney
- ▶ Attorney–client privilege=particular to litigation
- ▶ Work–product doctrine: Litigation matters/documents not discoverable
- ▶ **Discovery: All your files, electronic or paper documents, e–mails, voicemails, etc. CAREFUL!**
- ▶ **A sent email or text is a permanent record!**

Confidentiality–elaboration

- ▶ Professional duty of confidentiality
 - Lawyer does not reveal info relating to representation of a client in general
 - Confidential: product design, customers, pricing, marketing strategy, salaries, assumed infringers, plans, etc.
 - Confidential: content of relationship, even existence of relationship, at least temporarily
- ▶ Attorney–client privilege
 - Generally limited to litigation—hopefully rare!
 - Keep info away from the other side–prevents discovery
 - If business advice/plans in communication, make sure there is some legal aspect to it too—only the legal is protected
- ▶ Work–Product Doctrine
 - Useful during litigation–prevents legal plans from being discovered
 - Prevents an attorney from making her case “on wits borrowed from the adversary”

DISCOVERY---fun stuff!

From Magnusson patent infringement lawsuit

RESONANT SENSORS INC. v. SRU BIOSYSTEMS, INC.

<https://www.leagle.com/decision/infdco20090818666>

REQUEST NO. 9:

All documents concerning, referring to, or relating to the manufacture, use, importation, sale, or offer for sale of any biosensor, biosensor component, or related product developed, designed, fabricated constructed, manufactured, or used by Plaintiffs.

REQUEST NO. 56:

All patents, printed publications, other items of prior art, or other documents that Plaintiffs contend have any bearing on the validity of any of the patents-in-suit.

REQUEST NO. 73:

All documents concerning, referring to, or relating to Robert Magnusson's finances, including but not limited to detailed information related to investments in, loans to, or credit extended to Plaintiffs.