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## FARALLON LAW GROUP NEWSLETTER

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### IP Ownership Issues for Start-Ups

Intellectual property (“IP”) has become a key value element for not only established technology companies but also start-ups and non-technology companies. In their rush to competitive success, technology start-ups often fail to focus adequate attention on basic intellectual property ownership issues.

➤ **Why is IP Ownership Important?** Even if a company achieves business success, the inadvertent failure to own key technology can lead to potentially fatal consequences. For example, if an estranged founder never assigned critical IP, the company cannot subsequently force a transfer of the IP and financings or acquisitions may be delayed or fail unless resolved.

➤ **IP Assignment is Critical.** The simplest way to address the concern is to require each person developing or creating anything on behalf of the company to assign all related IP to the company in a signed document.

➤ **Employees.** Employers own any IP developed by an employee in the scope of their work under the work-for-hire doctrine. However, it is always recommended that each employee (regardless of compensation, position, or duties) sign a standard form of Proprietary Information and Invention Assignment Agreement (“PIIAA”) or similar agreement. A PIIAA confirms that the employer owns the IP but it also imposes confidentiality obligations on the employee. The PIIAA may also address other items such as non-solicitation obligations, return of company property on termination, confirmation of the employee’s “at-will” status, etc.

➤ **Consultants.** This is the most overlooked area of IP ownership. It is often mistakenly assumed that a company owns the IP created by its consultants. However, the general rule is that the creator of IP owns the IP even if the company paid for the development. Companies *must* have a signed consulting or other agreement which clearly assigns

ownership of all IP developed or created by the consultant in the scope of their duties. Failure to have an agreement will present significant issues at the time of a financing or sale of the company. A financing source/acquirer will perform due diligence of the company and require confirmation that each consultant has assigned all IP to the company.

➤ **Founders.** Founders will typically assign all pre-formation IP to a newly formed company by means of a Technology Assignment Agreement broadly describing the scope of the IP being assigned. For future-developed IP, founders will sign the company’s standard PIIAA as an employee.

➤ **Directors.** The role of a Board of Directors is generally to establish broad policies and objectives, select/manage the CEO and review/approve the company’s financials and general operations. As such, they are not often involved in developing any IP on behalf of the company. However, they will have access to confidential and/or proprietary information of the company and thus will typically be required to agree to confidentiality obligations within a Board Service and Indemnity Agreement. However, some companies will require Directors to assign any relevant IP.

➤ **Advisors.** Similar to Directors, advisory board members and informal advisors will frequently be involved in high-level marketing, business modeling, financing/fundraising, etc. duties. Thus, advisors often do not develop any significant IP. But, again, they will have access to confidential and/or proprietary information and should at least be subject to confidentiality obligations. It is recommended that advisors also assign all IP they may develop, pursuant to a signed Advisory Board Agreement which will address both confidentiality and IP assignment.

***Please feel free to contact Boris Lieberman or Mario Kashou at 415-255-2450 if you have questions about IP protection for start-up companies.***

*This Newsletter is intended as a general guide to law issues and developments. It does not contain a general legal analysis or constitute a legal opinion of Farallon Law Group LLP or any member of the firm on the legal issues described. It is recommended that readers not rely on this general guide in structuring individual transactions but that professional advice be sought in connection with individual transactions.*