Founder and Employment Agreements, Stock Options, Non-Disclosure Agreements (NDAs); Non-Compete Agreements

UNIVERSITY STARTUP DEVELOPMENT WEBINAR SERIES
SPEAKERS

Glenn Vonk, PhD
Director of Business Development and Alliances
Former Director of Advanced Technology, BD

Andrew Tucker, JD
NCET2 Startup Development Officer
Partner, Womble Bond Dickinson
BACKGROUND ON THE STARTUP DEVELOPMENT PROGRAM
Commercialization Model Timeline

Congress seeks to understand commercialization of $B137 annual R&D in Fed Labs / Universities

NCET2 Congressional Commercialization Summit – Corporate Sub-committee Formed

First Model Proposed

Model Vetting Roadshows: CA; PA; NY

Congressional Briefs

(Pilot) First Demo Day

Second Demo Day

2015

2016

2017

Startup Development Officers Pgm Announced

IP2 Startup Pgm Announced

STARTUP DEVELOPMENT PROGRAM
Creating Startups for Corporates from University and Federal Lab Research
CORPORATE COMMERCIALIZATION CENTER (CCC)

- FEDERALLY FUNDED R&D AT UNIVERSITIES ($37 Billion)
- FEDERALLY FUNDED R&D AT FEDERAL LABS ($93 Billion)
- OUTBOUND CORPORATE R&D

RESEARCHER-ENTREPRENEURS (UNIVERSITY STARTUP CREATION)

GLOBAL 1000 CORPORATE COMMERCIALIZATION COUNCIL (NCET2 CORPORATE MEMBERS) (COORDINATION CENTER)

- GAP FUNDING
  - SBIR FUNDING
  - STARTUP R&D TAX CREDITS

PRIVATE FUNDING
- UNIVERSITY MENTORING-ANGELS
- CVCs
- ANGELS
- VCs

IPO / CORPORATE BUSINESS UNITS

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Startup Development Program

• Congress funds $137 billion in federal funded research at universities and federal labs

• Excellent opportunity for researchers and entrepreneurs to build a university startup around that IP
  – Universities have programs to help you

• NCET2 Fortune 500 members and SDOs who will partner with university startups to help develop and fund those startups
Startup Development Program

• NCET2 Startup Development Officer will also help university entrepreneurs, faculty, researchers, and students create, develop and fund market aligned university startups (http://ncet2.org/sdo)
SDO SERVICES

• Early management teams of university entrepreneurs, graduating students, faculty, and researchers
  • Business plan
  • proof-of-concept
  • prototyping
  • early product development
  • SBIR, Angel, and VC funding
  – “Commercialization Experiments”
  • Get to work with Fortune 500 companies, angels, VCs, and serial entrepreneurs to help commercialize university and Federal Lab technologies
Benefits

• Startups/Entrepreneurs/Faculty/Researchers/Students
  – Access to professional SDO talent to help create, develop, and fund your startup

• Universities
  – Moving IP to market for significant market impacts
  – Graduating students into startups and working with Fortune 500 and SDOs
Engage with NCET2 and the SDOs

1. Submit your IP or startups to NCET2
   • The SDOs and Corporates review your IP and startups to determine if you are a good candidate for the Startup Development Program
   • Now accepting applications for IP and startups, visit: http://ncet2.org

2. Become an NCET2 SDO
   • Open to: Ex-Corporates in Open Innovation/Venture Capital, Serial Entrepreneurs, Active Angel Investors
   • Send your CV and with a short note about wanting to know more about being an SDO to startupdevelopment@ncet2.org
Andrew Tucker, JD
NCET2 Startup Development Officer
Partner, Womble Bond Dickinson
Founder and Employment Agreements, Stock Options, Non-Disclosure Agreements (NDAs); Non-Competes

Instructor: Andy Tucker
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December 13th, 2017
Overview

I. Founder Agreements

II. Employment Agreements
   I. History of Employee Mobility Laws
   II. Litigation Claims
   III. Identifying Intellectual Property
   IV. Protecting Intellectual Property - Policies, Practices and Contracts
      I. Beginning of Employment
      II. During Employment
      III. At Termination
      IV. Post-Termination

III. Stock Option Plans
Founder Agreements
Types of Founder Agreements

I. Buy-Sell Agreements
   I. If one partner desires to sell or is not hitting benchmark, other partner has the right to buy or force the sale of shares
   II. Can force painful discussions that may not be necessary

II. Voting Agreements
   I. How do you want to handle certain issues, i.e. new partners, sale of company, accepting capital?

III. Assignment of Intellectual Property
Pros and Cons

I. Pros
   I. Force discussions to ascertain all parties are on the same page
   II. Resolve disputes before they happen

II. Cons
   I. Lingering resentment
   II. Cost
   III. Inability to foresee all circumstances
Employment Agreements
Employment Agreements

I. Establish a contractual relationship between company and employee

II. Modify rights and obligations that would exist outside the contract

III. Set out salaries, duties, severance and other obligations between the parties

IV. Identify and protect corporate assets

V. Govern the ownership of old and new intellectual property
The History of Laws Governing Employee Mobility

- At-Will
- Non-Compete
- Duty of Loyalty
- Patents and Copyrights
- Trade Secret Laws
- Tortious Interference Claims
Litigation Claims

- Misappropriation of Trade Secrets
- Breach of Duty of Confidentiality
- Breach of Fiduciary Duty
- Breach of Duty of Loyalty
- Conversion
- Breach of Contract
  - Non-compete
  - Confidentiality
  - Non-solicitation
Identify Your Intellectual Property

- Why?
  - To protect it
  - To convince the court
What Intellectual Property Can You Protect?

- Trade Secrets
- Confidential Information
- Proprietary Information
- Patents
- Copyrights
Trade Secrets

• Not generally known
• Provides a competitive advantage
• Reasonable measures taken to keep confidential
• Examples: customer lists, production processes
Protecting Intellectual Property – Beginning of Employment

• Offer letter
Protecting Intellectual Property –
Beginning of Employment (cont’d)

- Proprietary Information and Invention Assignment Agreement
  - Confidential Information Defined
  - Agreement Not to Disclose
  - Agreement to Assign Inventions
  - Work-for-Hire
  - Shop-Right Doctrine
  - Right to Tell Subsequent Employer
Protecting Intellectual Property –
Beginning of Employment (cont’d)

• Non-Compete Agreements
  • Generally
    • Reasonable
    • Temporal
    • Geographic
    • Scope of activity
Protecting Intellectual Property – Beginning of Employment (cont’d)

• Otherwise Enforceable Agreement
  • Justifies restraining trade
  • Designed to enforce the non-compete
  • Illusory consideration
Protecting Intellectual Property – Beginning of Employment (cont’d)

- Non-solicitation of Customers
- Non-solicitation of Employees
Protecting Intellectual Property – During Employment

• Policies
  • What?
  • Where?
  • How?
Protecting Intellectual Property – During Employment (cont’d)

• Procedures
  • Identify
  • Assign Level of Confidentiality
  • Monitor Access
  • Keep Secure
Protecting Intellectual Property – At Termination

• Review Circumstances
• Exit Interview
• Termination Certificate
Protecting Intellectual Property – Post Termination

- Letter to Former Employee
- Letter to New Employer
Litigation Claims

- Misappropriation of Trade Secrets
- Breach of Duty of Confidentiality
- Breach of Fiduciary Duty
- Breach of Duty of Loyalty
- Conversion
- Breach of Contract
  - Non-compete
  - Confidentiality
  - Non-solicitation
Protecting Intellectual Property – Post Termination (cont’d)

Remedies
• Injunctive Relief
• Money Damages
• Reformation of Agreement
• Attorney’s Fees
• Declaratory Relief
Protecting Intellectual Property – Post Termination (cont’d)

Typical Case
• Temporary / Permanent injunction
• Fact specific
• Clear, consistent and appropriate written document
Stock Option Plans
Stock Option Plans

I. Company grants the right to purchase a specific number of shares at a pre-set price (generally market value on the date of grant) for a period of time in the future

II. Tax requirements to properly structure a plan

III. Accounting issues
Option Plan Requirements

I. Board approval (corporate matter)
II. Stockholder approval (corporate and tax matter)
III. Reservation of shares
Option Plan Administration

I. Grants done by board or compensation committee
II. Vesting
III. Restricted stock v. Options
IV. Options v. Warrants
Pros of Stock Option Plans

I. Reward employees for contributing to equity value
II. Conserves cash
III. Feeling of ownership and shared benefit with employees
IV. Align interests of employees and owners
Cons of Stock Option Plans

I. Dilutive to ownership
II. Fairness of administration
III. New tax and accounting rules make administration more complex
IV. Option value is now an expense and can be difficult to administer
V. In public company, if value falls, options lose meaning to employees
Questions?

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