

Startup Bootcamp for Entrepreneurs

Essentials of Startup Law

May 25, 2022

University of Utah | Spencer Fox Eccles Business School | 1st Floor Auditorium
1655 East Campus Center Drive, Salt Lake City Utah 84111



Agenda and Schedule

STARTUP BOOTCAMP FOR ENTREPRENEURS: ESSENTIALS OF STARTUP LAW

9:00 a.m. Registration & Continental Breakfast

9:30 a.m. Welcome & Introduction

Matthew Bresnahan, Patents and Innovations Partner,
Wilson Sonsini

9:45 a.m. VC Market Trends, Forming and Organizing the Company

Alison Johnson, Corporate Partner, Wilson Sonsini
Jeana Kim, Corporate Partner, Wilson Sonsini

10:45 a.m. Break

11:00 a.m. What Entrepreneurs Should Know

Moderator: Kelvyn Cullimore, President & CEO, BioUtah

Panelists: Jared Bauer, CEO, IONIQ Sciences, Inc.
Libble Ginster, President & CEO, Fluidx Medical
Technology, Inc.
Lisa Dunlea, Executive in Residence,
PIVOT Center
Myles Greenberg, MD, MBA, President & CEO,
Alucent Biomedical, Inc.

12:00 p.m. Lunch – Term Sheets

Jeana Kim, Corporate Partner, Wilson Sonsini
Alison Johnson, Corporate Partner, Wilson Sonsini

1:00 p.m. Patent Strategy for the New Enterprise

Ross Randall, Director of Innovation Management,
PIVOT Center

Matthew Bresnahan, Patents and Innovations Partner,
Wilson Sonsini

Rex Watkins, Ph.D., Patents and Innovations Associate,
Wilson Sonsini

2:00 p.m. Intellectual Property: Licensing

Paul J. Corson, Deputy Director, Senior Director of
Innovation, PIVOT Center

Farah Gerdes, Technology Transactions Partner,
Wilson Sonsini

Katharine Ku, Chief Licensing Advisor, Wilson Sonsini

3:00 p.m. Break

3:15 p.m. Business Plans, Fundraising, and Valuation

Matthew Meyer, Chief Business Advisor, Life Sciences
Business Advisory, Wilson Sonsini

4:00 p.m. Avoiding Founder Disputes and Employment Hiring Strategies

Katelin Roberts, Executive Director, BioHive Utah

Deno Himonas, Litigation Partner, Wilson Sonsini

5:00 p.m. Networking Reception

Altitude Lab | 630 South Komas Drive | Suite 300
Salt Lake City, Utah 84108

(Must be 21+ to attend)

Welcome and Introduction



Matthew Bresnahan

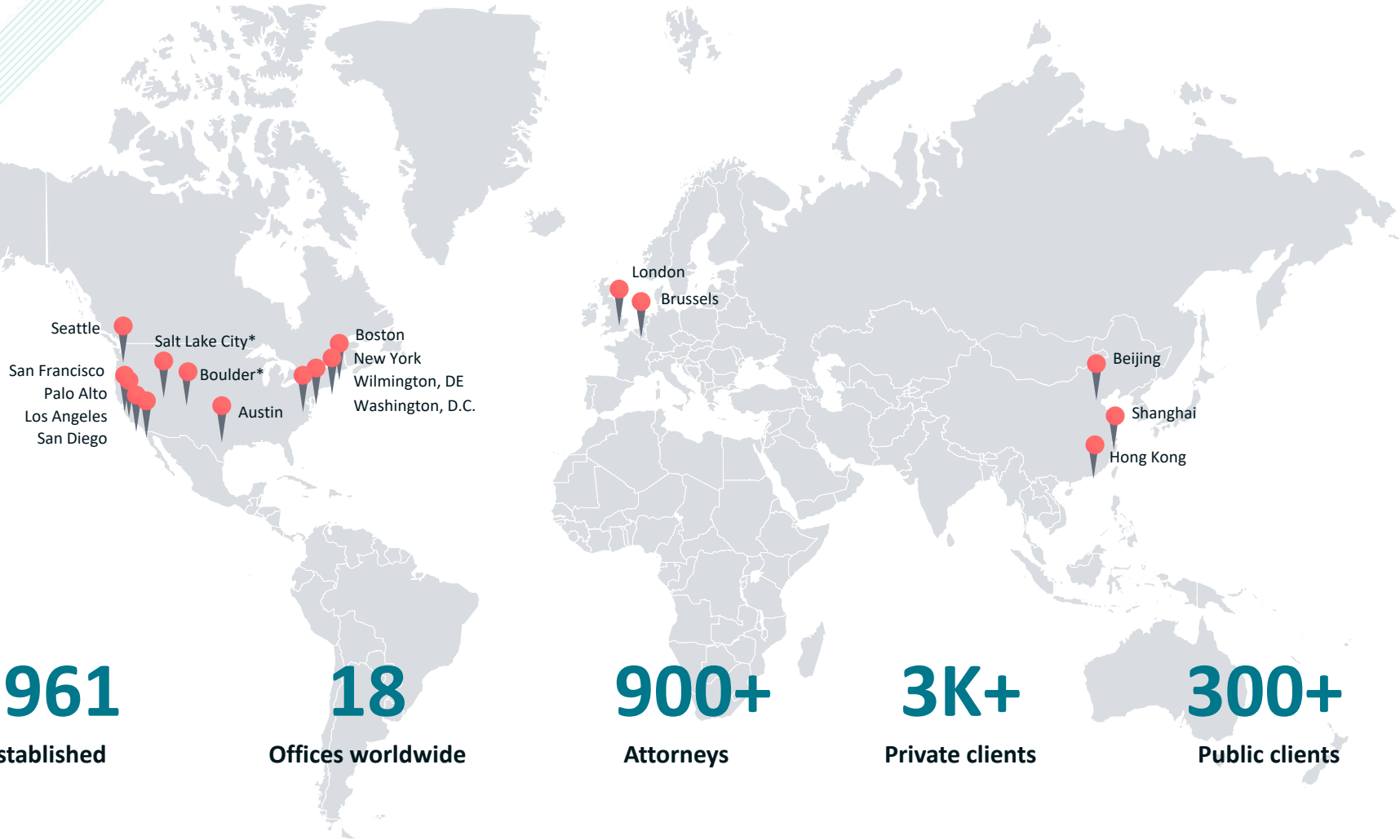
Patents and Innovations

Partner

Wilson Sonsini

mbresnahan@wsgr.com

Footprint



1961
Established

18
Offices worldwide

900+
Attorneys

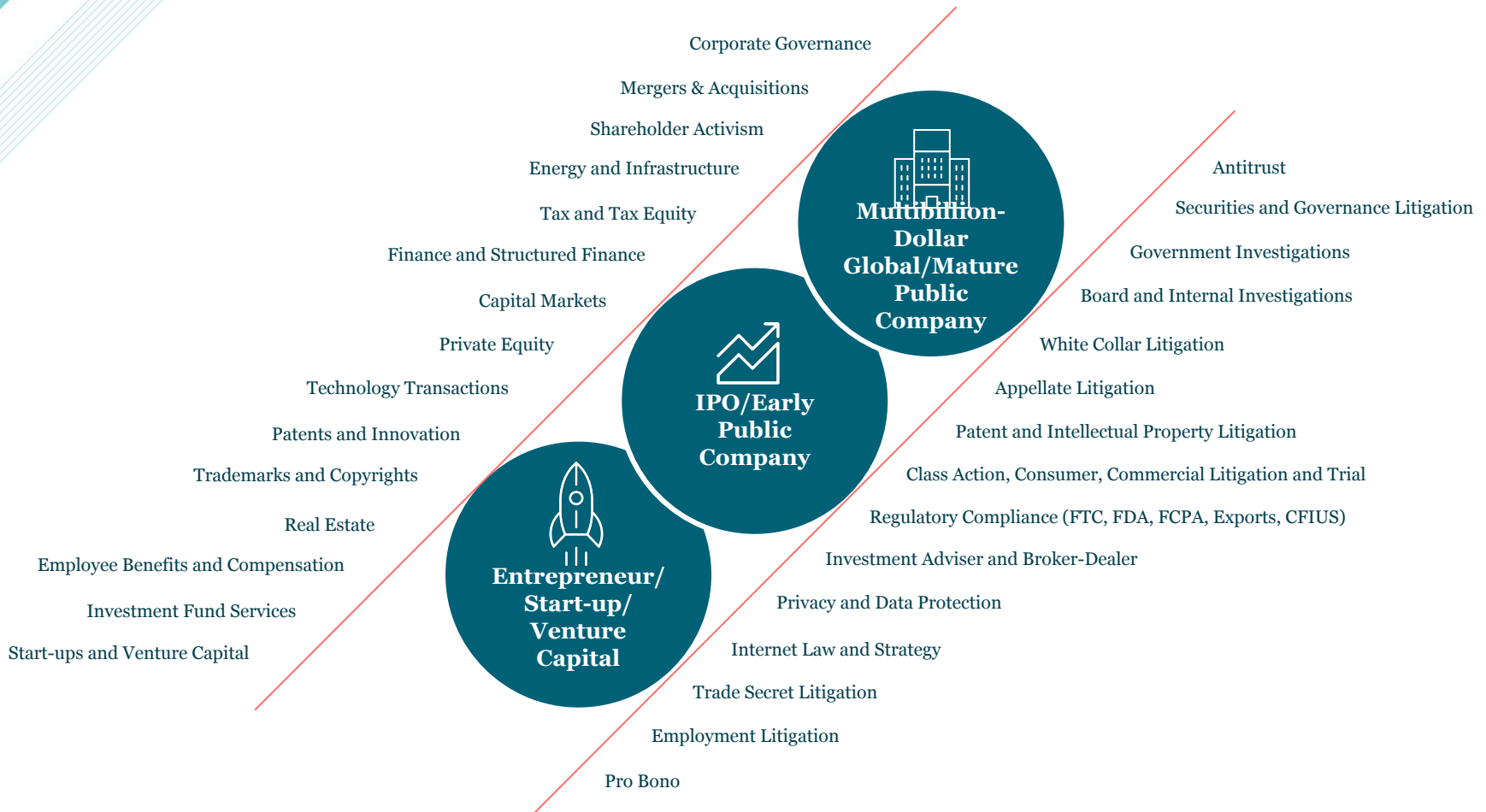
3K+
Private clients

300+
Public clients

*Office Coming Soon

Business Model

PROVIDING EXPERIENCED REPRESENTATION TAILORED TO CLIENTS' UNIQUE NEEDS AT EVERY STAGE OF GROWTH



Who We Are & What We Do

OUR TRACK RECORD

- Represent more companies that receive **venture financing** than any other law firm
- Advise more U.S. companies on their **initial public offerings** than any other law firm
- Represent more technology companies in **mergers and acquisitions** than any other U.S. law firm
- Advise more than 300 public and 3,000 private enterprises on issues of **corporate law, securities, and corporate governance**

The Leading Law Firm for Private Companies

Experience

Actively represent more than 3,000 private companies

Deep relationships in the venture capital community

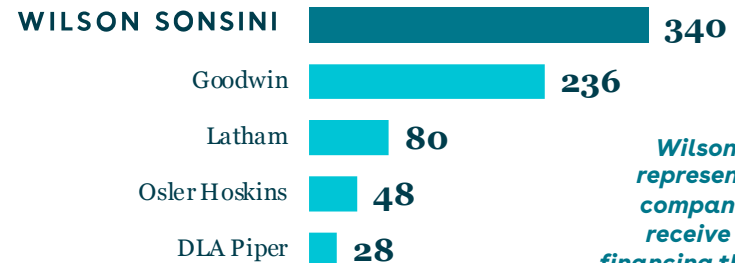
Represent more companies that receive venture financing than any other U.S. law firm

- Ranked No. 1 for the most venture capital deals by Refinitiv

Incorporate thousands of successful businesses (Autodesk, Coherent, Cypress Semiconductor, Google, Linear Technology, Sun Microsystems, etc.)

Provide value-added resources (ECP website, Neuron, Investment Forums, Entrepreneurs Report, Online Term Sheet Generator, etc.)

Select Recognition



*Wilson Sonsini represents more companies that receive venture financing than any other U.S. law firm**

Select Recognition

What the team is known for Demonstrates an acclaimed record for advising Silicon Valley technology startups on their IPOs and venture capital financings, as well as general corporate and IP matters. Highly respected for the sheer number of startups it has successfully cultivated over the past 50 years.

Strengths The attorneys "make themselves available" and "make it clear what I need to do, and get me the resources to do it" according to one client. Wilson Sonsini is recognized by clients as "one of the most responsive firms around."

"They definitely add value" as "a thought partner as well as an adviser," observers assert, describing the firm as "productive and constructive."

Chambers
AND PARTNERS

*Source: Refinitiv (Thomson Reuters) full year 2020 – issuer side deals

The Leading Law Firm for Emerging Growth Companies in Utah

- WSGR represents more than 30 VC-backed or public clients headquartered in Utah
- WSGR has Advised more VC firms on Utah-related deals than any other firm since 2016
- WSGR has advised more Utah-based company-side issuers on IPOs since 2016 than any other firm
- WSGR is ranked fourth among law firms in advising on Utah-related mergers and acquisitions since 2016

Commitment to Entrepreneurs and Venture Capital

NETWORK

Decades of Relationship Building Across Diverse Industries:

- Extensive network of VCs, entrepreneurs, investment banks, and board members
- Strategic partnerships
- Networking events

EFFICIENCIES

Seamless Integration of Firm Resources:

- Dedicated team of attorneys focused on your success
- Access to experts in all legal disciplines
- Leverage collective firm knowledge

EDUCATION

Valuable Information:

- Bootcamps
- Entrepreneurs Report
- Investment Forums
- General Counsel Series
- College for Clients
- Term Sheet Generator
- Proprietary market research
- Updates on key legal developments

CAPABILITIES

Getting Started:

- Venture financings
- Intellectual property counseling and patents
- Technology licensing and transactions
- Trademarks and advertising
- Employee benefits and compensation
- Fund services

We Scale to Meet Our Clients' Needs:

- Corporate governance
- Public offerings
- Mergers & acquisitions
- Debt finance
- Litigation (IP, commercial, employment, securities)

Connecting Startups With Investors

WILSON SONSINI REPRESENTS AND WORKS ALONGSIDE THE LEADING VENTURE CAPITAL FIRMS, INCLUDING:



At the Forefront of Groundbreaking Technologies



More Than Just Legal Counsel

WE PROVIDE NUMEROUS VALUE-ADDED RESOURCES TO OUR START-UP CLIENTS TO ARM THEM WITH THE KNOWLEDGE THEY NEED TO SUCCEED.

Tools and Resources

A LAW FIRM FOR FOUNDERS

Trusted counsel to 100,000+ start-ups and entrepreneurs for over 60 years

[Explore More](#)

Congratulations, your company is now incorporated

Neuron is your home for all your corporate legal needs

Tasks:

- File your S200 election (You have 30 days from paying for your shares to file your S200 election with the IRS.)
- Schedule first board meeting (Set up your first board meeting to sign corporate acts.)

YOUR CAPITALIZATION

Your company's capitalization is a representation of the ownership of your equity holders and of shares available for future issuance.

Year shares	Type	Shares
Authorized	Authorized	10,000,000
Fully issued	Fully issued	10,000,000
Reserved & outstanding	Reserved & outstanding	8,500,000
Reserved for option plan	Reserved for option plan	1,500,000

This is your capitalization as of June 10, 2021, right after the incorporation.

LEGAL TEAM

Stephen Gillman, Partner

Research, Reports, and Analysis

THE ENTREPRENEURS REPORT
PRIVATE COMPANY FINANCING TRENDS

Q3 2021

Firm Partners with Morgan Stanley at Work to Integrate Shareworks into Neuron

From the Wilson Sonsini Database: Financing Trends for Q3 2021
Up and Down Rounds by Quarter

In September 2021, Wilson Sonsini announced a partnership with Morgan Stanley at Work to integrate their capital management platform, Shareworks, into the start-up proprietary start-up share platform, Neuron. This industry first application engineering partnership provides an integrated digital experience for our start-up clients that reduces the equity share issuance process to minutes.

WILSON SONSINI

2021 MID-YEAR TECHNOLOGY AND LIFE SCIENCES IPO REPORT

Bootcamps and Private Label Events

FOUNDER UNIVERSITY

Presented & hosted by: **W&GR**

Founder University is a three-day curriculum for founders who have launched their product but haven't raised Series A.

Commitment to attend each day is required.

WILSON SONSINI

College for Clients Series: Employee Equity Fundamentals - Private Companies

Please Join Us

To help our privately held clients' stock administrators, in-house counsel, controllers, human resources personnel, and any others involved in stock plan administration better understand and manage their employee equity programs, we are hosting a seminar that will provide practical tips and materials on sound stock plan administration practices and equity compensation issues. The program will provide an overview of the fundamentals of equity compensation and a more detailed discussion of the legal issues involved in stock administration and compliance. It will focus on private companies ranging from early-stage start-ups to those contemplating public offerings.

Among the topics to be discussed:

- How various equity compensation instruments work (e.g., restricted stock vs. stock options)
- Tax and accounting issues, including Section 83(b) elections and Section 409A
- Practical tips for administering equity programs

* Please note that this session will discuss issues specific to corporations. It is not intended to address issues unique to other types of entities, such as LLCs.

We hope you will join us.

Madeleine Donhart, Partner, Employee Benefits and Compensation

Jacqueline Tokuda, Partner, Employee Benefits and Compensation

Introducing Neuron

AS PART OF WILSON SONSINI'S COMMITMENT TO FORGING THE FUTURE OF THE LEGAL INDUSTRY WITH TECHNOLOGY, WE ARE EXCITED TO INTRODUCE NEURON. NEURON STREAMLINES, AUTOMATES, AND DIGITIZES THE TYPICAL LEGAL PROCESSES ALONG A START-UP'S JOURNEY INTO ONE SOLUTION.



Client Portal

Access your company's information and documentation at any time in the client portal.



Workflow Automation

Neuron generates complete and accurate document sets in seconds, not hours, leaving attorney and client to focus on high-value legal advice.



Seamless Integrations

From signatures, to charter filing, to capitalization and company records, Neuron's seamless third-party integrations streamline the legal service process.



Collaboration

Neuron integrates automated digital process with personalized legal advice. You don't need to choose between speed and efficiency vs. expertise tailored to your situation. You can have both.

Capitalization	Governance	Board action	Service providers
Your company's capitalization is a representation of the ownership of your equity holders and of shares available for future issuance.			
Total shares	Type	Authorized	Shares
	Authorized	15,000,000	
	Fully-issued	10,000,000	
	Issued & outstanding	8,500,000	
	Reserved for option plan	1,500,000	

Company Details

Company Name

Industry

Company Address

Address line 1
124 N Market St.

Address line 2

City: Wilmington State: Delaware Zip code: 19801

Use company address as mailing address

Company phone: +1 (302) 654-5162

Comments

Lyle Norton: We had requested single trigger because it is more favorable to us as founders, so is it okay to keep that?

Joseph M. Hume: I would strongly advise going with double trigger now, as it is what venture investors will expect to see (and in most cases, will require you to implement, before meeting, so the single trigger will become moot).

Lyle Norton: Okay we can go with double trigger in that case. Thanks!

Introducing the ECP Website

A NEW DIGITAL HUB FOR THE EMERGING COMPANIES PRACTICE (ECP), PROVIDING FOUNDERS, ENTREPRENEURS, AND VENTURE CAPITALISTS UNPARALLELED ACCESS TO A WIDE RANGE OF FREE LEGAL RESOURCES AND INSIGHTS.

“Our new ECP site is one of several resources that we’re introducing to help the next generation of entrepreneurs succeed.”

- Raj S. Judge
Wilson Sonsini partner and co-leader of the firm’s Emerging Companies Practice

WILSON
SONSINI **ECP**
EMERGING COMPANIES PRACTICE

HOME KNOWLEDGE BANK INDUSTRY COVERAGE ECP TEAM TECHNOLOGY

A LAW FIRM FOR FOUNDERS

Trusted counsel to 100,000+ start-ups
and entrepreneurs for over 60 years

Explore More

VC Market Trends, Forming and Organizing the Company



Alison Johnson
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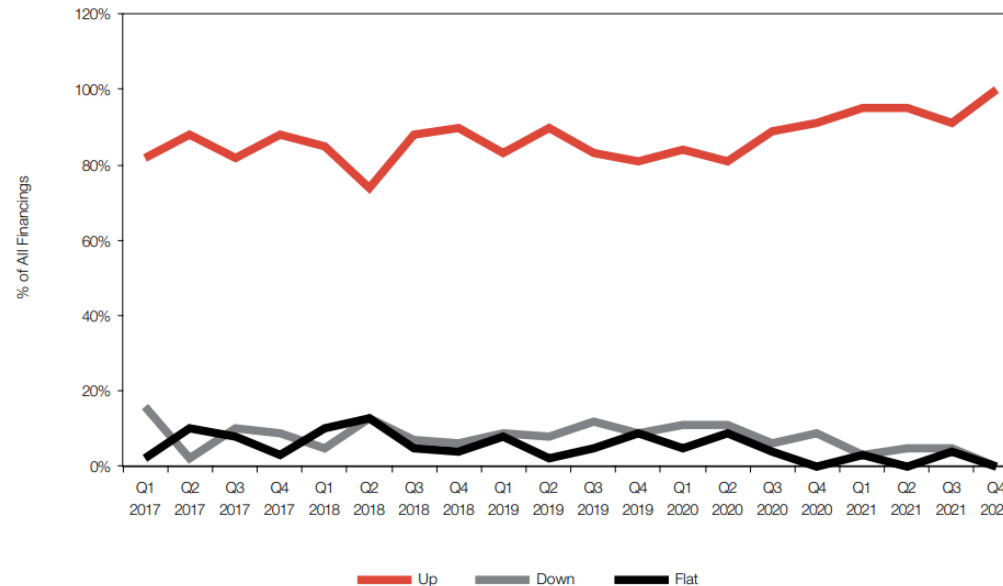
Jeana Kim
Corporate
Partner
Wilson Sonsini
JSKim@wsgr.com

Financing Trends for Q1 2022

VC MARKET TRENDS

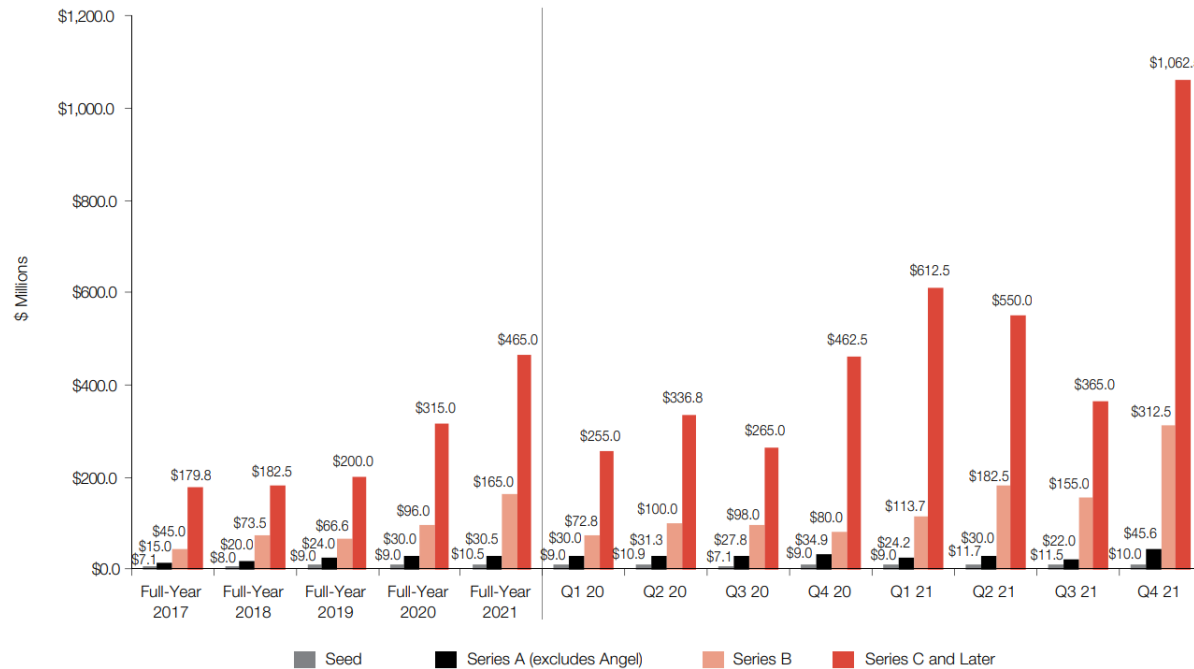
Up and Down Rounds by Quarter

- Up rounds peaked at 100% of Series B and later financings in Q4 2021, surpassing the Q2 record-breaking high of 95% and marking the fourth consecutive quarter of greater than 90% up rounds, the longest streak in five years.
- There were no down-round or flat-round financings in Q4. Given the quarterly performance, when looking at full-year 2021, it is no surprise that up rounds dominated, climbing to 95% of Series B and later financings, with down and flat rounds landing at 4% and 2%, respectively



Median Pre-Money Valuation

- Median pre-money valuations in Q4 2021 reached new highs across all post-Seed rounds, with Series C and later rounds registering the most notable increase.



Median Amount Raised – Equity Financings

- Full-year 2021 median amounts raised reached all-time highs for all rounds, and Q4 2021 median amounts raised also saw increases from the prior quarter.



Forming & Organizing the Startup Entity



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Choosing the Form of Business Entity

FORMING & ORGANIZING THE STARTUP ENTITY

Common legal organizations

- Limited liability company
- S corporation
- C corporation

Limited Liability Company

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Limited liability corporation (LLC)

- LLC members can operate as managers; all owners have limited liability (i.e., only the amount of their investment)
- No entity-level tax – taxes pass through to LLC members
- Ownership interests of the “members” are defined and established in the LLC operating agreement

Why doesn't an LLC work for a VC-backed start-up?

- S corporation has board members/shareholders, etc.; but—
 - Tax benefits and losses passed through to the individual shareholders (i.e., a single level of taxation)
 - Early stage start-ups will sometimes take advantage of “S Corporation” status: losses get passed through to the owners
- Requirements for S corporation status:
 - no more than 100 shareholders
 - all individuals (family trusts are OK in general)
 - no “foreign” shareholders
 - only one class of stock (i.e., no preferred stock)
- Simple conversion to C corporation

Why doesn't an S corporation structure work for a VC-backed startup?

- Attributes of a C corporation
 - Corporate governance
 - Stockholders elect board of directors
 - Board appoints officers, oversees strategic direction
 - Officers manage day to day affairs of the company
 - No pass through of tax benefits
 - C corporation is taxed as a separate legal entity (unlike the LLC and the S Corporation).
 - VCs can invest in it; employees can understand stock incentives

Conversion from LLCs to Corporations

FORMING & ORGANIZING THE STARTUP ENTITY

- Conversion from LLC to corporation can generally be effected on a tax-free basis (may be taxable if LLC had issued debt and/or LLC has allocated losses to members in excess of their cost basis).
- Generally straightforward corporate process to effect conversion of an LLC to corporation (if LLC issued “profits interests”, it may get more complicated).
- Delaware LLC into a Delaware corporation can be effected through a statutory direct conversion (plan of conversion and no new entity is required to be formed).
- California (or non-Delaware) LLC can be converted in a Delaware corporation through a merger process where Delaware is the surviving entity.
- Note that conversions from corporations to LLCs are treated for tax purposes as if the corporation liquidated and could be taxable.
- Always confer with your accountant on tax implications **before conversion**.

Where to Incorporate

FORMING & ORGANIZING THE STARTUP ENTITY

- Delaware or some other state?
 - Cost
 - Filing services
 - Beneficial corporate law
 - IPO objectives & reincorporation

Start-up Documents: 4 Buckets

FORMING & ORGANIZING THE STARTUP ENTITY

- Incorporation documents
- Founder documents
- Employee documents
- Basic third party agreements

Incorporation Documents

FORMING & ORGANIZING THE STARTUP ENTITY

- Certificate of Incorporation
- By-laws
- Organizational minutes and resolutions
 - Establish Board
 - Appoint Officers
 - Issue stock
 - Other Administrative matters

- Invention Assignment Agreement
 - IP assignment
 - Confidentiality
 - Non-compete?
- Founders' Stock
 - Restricted Stock Purchase Agreement
 - Basic Tax Principles (Sweat Equity Issues)
 - Vesting
 - Acceleration Terms (Single Trigger v. Double Trigger)
 - 83(b) Elections

Founder Documents: 83(b) Elections for Founders' Stock

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- General Rule – Founders are taxed on FMV of shares as they vest
- Exception
 - File 83(b)!
 - Choose to tax at grant
 - File within 30 days
 - No second chance!!

Employee Documents

FORMING & ORGANIZING THE STARTUP ENTITY

- Offer letter
- Invention Assignment Agreement
- Options
 - What is an Option?
 - Option Plans
 - Issuing Options
 - Process for Granting Options
 - ISOs & NSOs
 - 409A

Employee Documents: Options – What is an option?

FORMING & ORGANIZING THE STARTUP ENTITY

- Right to buy Stock at a set price
- Typically granted to employees, board members, advisors and consultants
- Issued through an “option plan”

Employee Documents: Stock Plans

FORMING & ORGANIZING THE STARTUP ENTITY

- Equity incentive structures for directors, employees and consultants are usually implemented through the adoption and administration of a “stock plan” or “stock option plan” (these are synonymous)
 - A stock plan is a formal written document approved by the board of directors and the shareholders. The stock plan establishes a “reserve” of stock (i.e., authorized but unissued shares that are set aside, or earmarked, specifically for issuance under the stock plan)
 - VC investors include the reserve in negotiating valuation. They want to ensure that the reserve is established at an adequate level to avoid post-financing dilution to their negotiated equity stake in the company

Employee Documents: Options – Issuing Options

FORMING & ORGANIZING THE STARTUP ENTITY

- How boards have traditionally priced common stock in connection with option grants/stock grants
 - Objective is to price the common stock at fair market value
 - Section 409A of the Internal Revenue Code in many cases requires pricing based on an independent valuation
- Every option grant/restricted stock grant has to be approved by the board, and the board has to establish the stock price (i.e., FMV)
 - Result: changes in stock price are determined at board meetings, when the board approves option grants/stock grants

Employee Documents: Options – Process for Granting Options

FORMING & ORGANIZING THE STARTUP ENTITY

- Certificate of Incorporation and Bylaws
- Restrictions in other constituent documents (e.g., pre-emptive rights)
 - Clean-up grants to former service providers usually not carved out
- Stock Plan
 - Typically requires current service provider status (not future or past)
 - ISOs must be granted pursuant to a written plan
- Securities Laws consideration
- Corporate process
 - Actions by written consent vs. meeting
 - No “as of” dating
- Issuing the agreement and maintaining good records
- Clean-up is costly so better to get it right the first time!

Employee Documents: Options – Incentive Stock Options (ISOs)

FORMING & ORGANIZING THE STARTUP ENTITY

- An ISO is eligible for favorable tax treatment
- Key Concepts:
 - No tax at grant
 - No tax at exercise (purchase)
 - Unless alternative minimum tax (AMT) applies
 - Sale or other disposition triggers income
 - Tax consequences differ depending on whether disposition is “qualifying” or “disqualifying”
 - Holding periods and other limitations apply to ensure favorable tax treatment

Employee Documents: Options – Characteristics of ISOs

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- ISOs must be granted pursuant to a written plan that:
 - sets forth number of shares,
 - states class of employees, and
 - is approved by majority of S/Hs w/in 12 months of Board Adoption.

Employee Documents: Options – Characteristics of ISOs (cont.)

FORMING & ORGANIZING THE STARTUP ENTITY

- Exercise price must be 100% of FMV on date of grant (110% FMV for 10% S/Hs)
- Can only be granted to EMPLOYEES of company (or parent or subsidiary)
- Maximum term of 10 years (5 yrs for 10% S/Hs)
- Must be exercised within 3 months of termination (12 months if disability)

Employee Documents: Options – Nonstatutory Stock Options (NSOs)

FORMING & ORGANIZING THE STARTUP ENTITY

- An NSO is any option that does not qualify as an ISO
- No tax at grant
- At exercise, ordinary income = “spread”
- Subject to tax withholding (regardless of liquidity of underlying shares); form W-2
- Sale – capital gain/loss
 - basis = purchase price + ordinary income recognized on exercise
 - long-term capital gain/loss if held for > 1 year

Employee Documents: Options – Section 409A

FORMING & ORGANIZING THE STARTUP ENTITY

- Discount stock options are treated as a deferral of compensation under Section 409A
- Stock options covering other than “service recipient stock” provide for a deferral of compensation
 - Only includes common stock (i.e., does not include preferred stock)
 - Options in subsidiary stock potentially problematic

Employee Documents: Options – Section 409A (cont.)

FORMING & ORGANIZING THE STARTUP ENTITY

- Tax at time of vesting, not date of exercise
- Potential interest penalty
- Employers have reporting and withholding requirements

Third Party Documents

FORMING & ORGANIZING THE STARTUP ENTITY

- Form NDA
- Consulting Agreement

Capitalization: Practical Tips

FORMING & ORGANIZING THE STARTUP ENTITY

- #1 Get the founders' stock arrangements right!
 - Make sure the founders are ok with their allocation
 - Establish vesting schedule although the VCs may reverse it later
 - “Buy/sell” arrangements are generally not necessary
- #2: Anticipate up to 50% dilution for first/second rounds
 - Set aside approximately 20% for future employees in the early stage

Capitalization: Practical Tips

FORMING & ORGANIZING THE STARTUP ENTITY

- #3: Establish an overall financing strategy
 - Create an incentive matrix for all positions in the organization
 - Determine when you need to raise financing and how much
 - Establish milestones that demonstrate viability/progress
 - Expect 4-6 months process from beginning to receipt of funds
- #4: Address employment issues up front
 - Noncompetition/Nonsolicitation Agreements
 - Confidentiality/Inventions Assignment Agreements

Non-dilutive financing options

FORMING & ORGANIZING THE STARTUP ENTITY

- Non-dilutive funding refers to any capital a business owner receives that doesn't require them to give up equity or ownership.
- Contributions from donors, tax credit programs, vouchers, grants, competitions, and loans (traditional and nontraditional).
- Government research grants, industry grants, foundations, and other industry partnerships.
- Examples in the biotech industry include grants from such sources as the National Institute of Health (NIH), Small Business Innovation Research (SBIR) and Small Business Technology Transfer (STTR) programs.
- Revenue-based financing (RBF) - investors provide companies with capital in exchange for a percentage of the monthly revenue as a return on the investment. The returns only continue until the initial capital amount plus any accrued multiple is repaid; most RBF investors expect to be repaid within four to five years of the investment.
- Considerations for pursuing non-dilutive financing.

Forming Board of Directors

FORMING & ORGANIZING THE STARTUP ENTITY

- **Role of the Board**
 - Overseeing the company's management and business strategies to achieve long-term value creation
- **Responsibilities of Board**
 - Fiduciary Duties – Duty of Care and Duty of Loyalty
- **Supervisory Role**
 - Supervising management
 - Overseeing the business and affairs of the Company and assessing performance
- **Oversight responsibilities**
 - Big picture rather than day-to-day management
 - Board's role in helping shape the corporate culture
- **Strategic Advisory Responsibilities**
 - The Board's role as a strategic advisor
 - Approving the mission and annual operating plan
 - Oversee, advise on, and approve corporate strategy and the communication of that strategy to investors/shareholders
- **What is the difference between a board observer and a director?**
- **What to look for in a board member and considerations for expanding the board.**

Thank You



What Entrepreneurs Should Know

Moderator:



Kelvyn Cullimore
President & CEO
BioUtah
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Jared Bauer
CEO
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Executive in Residence
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Myles Greenberg, MD, MBA
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Alucent Biomedical, Inc.
MGreenberg@alucentbiomedical.com

Panelists:

Thank You

Lunch - Term Sheets



Jeana Kim
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Alison Johnson
Corporate
Partner
Wilson Sonsini
agjohnson@wsgr.com

Understanding Term Sheets

Financing Types

Basic approaches for financing

LUNCH - TERM SHEETS

Equity

- Common Stock
- Series A Preferred Stock
- Seed Preferred Stock

Debt

- Bank loan
- Convertible promissory notes

SAFE note (Simple Agreement for Future Equity)

Considerations in structuring financings for startups

LUNCH - TERM SHEETS

Three over-arching themes

- Protection of founders/other existing investors
- Incentivize investors
- Cost and speed

Specific issues

- Amount being raised
- Identity of investors
- Terms (economic, governance, etc.)

Straightforward way to raise equity

- Usually no rights or preferences
- No downside protection (i.e., liquidation preference) for investors

Valuation must be determined

- Most significant negotiating point (refresher to come)
- Sets price for option grants

No venture capital investors and usually only non-professional angel investors will do it (best suited for friends and family round)

Equity – Series A Preferred Stock

LUNCH – TERM SHEETS

Typically the most complicated way to raise equity

- Must establish separate rights, preferences and privileges of preferred stock
- Extensive economic AND governance provisions
- Must establish valuation

Results in 4-5 separate 20+ page agreements

Usually takes 3-4 weeks minimum to complete and is usually most expensive approach

Best utilized for larger VC deals where larger proceeds support higher cost

Equity – Series Seed Preferred Stock

LUNCH – TERM SHEETS

- “Light” version of Series A Preferred
- Terms typically more founder friendly
- “Punt” on various terms until Series A Preferred
- Need to set valuation
- Quicker and less expensive than full Series A Preferred, but still can be time consuming and relatively expensive

- Often requires personal guarantees
- Financial covenants
- Secured by cash flows and accounts receivable
- NOT a real option for startups!

Debt – Convertible Bridge Note

LUNCH – TERM SHEETS

Easy to do, very straightforward

- No need to set valuation today
- Limited or no governance rights
- Minimal terms to negotiate
 - Maturity
 - Interest rate
 - Discount to next round
- Can be made more complicated
 - Optional conversion at maturity
 - Caps on conversion valuation
 - Change of control acceleration

Works best if subsequent financing is expected (avoids “bridge to nowhere”)

Short and sweet documentation

Acceptable to a wide range of investors

- Simple Agreement for Future Equity
- Similar to convertible note but no interest, not debt that must be repaid if there is no equity financing
- Quicker and less expensive than convertible note

The Term Sheet

Two class stock structure

LUNCH - TERM SHEETS

- Preferred and common stock
 - Common stock is generally used for compensatory purposes (i.e., as a form of payment to employees, board members, consultants, advisors and other service providers) and issued to founders at incorporation
 - Preferred stock is generally used for investment purposes and has many more rights, preferences and privileges than common stock
 - Common stock is typically “priced” at a lower price than preferred stock (i.e., for option granting purposes)

Preferred Stock Term Sheet- Economic Terms

LUNCH - TERM SHEETS

- Valuation/option pool
- Liquidation Preference
- Dividends
- Conversion features
- Anti-dilution protection
- Preemptive rights
- Founder vesting
- Redemption

Preferred Stock Term Sheet- Governance Terms

LUNCH - TERM SHEETS

- Board composition
- Founder/employee vesting
- Voting rights
 - Protective provisions
- Liquidity constraints
 - Right of First Refusal (ROFR)
 - Co-Sale (tag along)
 - Drag along


Preferred Stock Term Sheet- Other Terms

LUNCH - TERM SHEETS

- Registration rights
- Information rights
- Board observer
- Exclusivity
- Expenses
- Confidentiality

Series A Term Sheet- Spectrum of Key Terms

LUNCH - TERM SHEETS

	Company Friendly		Investor Friendly
Liquidation preference	1x initial return		Higher than 1x initial return, e.g. 1.5x or 2x
Participating liquidation preference	No participation after payment of initial return	Participation with common after payment of initial return up to a “cap,” i.e. a limit of a 1.5x or 2x return (typically including initial return)	Unlimited participation
Dividends	Non-cumulative		Cumulative
Anti-dilution	No anti-dilution adjustment for share issuances at a price per share below investors’ price	Weighted-average adjustment	Full ratchet adjustment
Redemption right	No redemption right	Redemption right at original issue price of shares	Redemption right at original issue price plus guaranteed return, or FMV (if higher)
Veto rights	Veto right only on actions that change the rights of the series of security purchased	Additional targeted veto rights on matters such as sale of the company below threshold amount	Full set of veto rights include sale of the company, future financings, declarations of dividends and other actions
Right of first refusal	No right of first refusal on future issuances, or right of first refusal only for investors that own a significant percent of the company	Right of first refusal on future issuances for most or all preferred investors	Right of first refusal on future issuances for most or all preferred investors with an over-allotment right
Drag-along right	No drag-along right	Drag-along right triggered only when founders and preferred stock each vote for a sale of the company	Drag-along right triggered when preferred stock votes for a sale of the company
Information rights	No information rights	Company must deliver periodic financial statements and annual budget to the investor	Company must deliver periodic financial statements, annual budget, cap table and board materials to the investor
Board membership	No board member	Board observer	Board seat (potentially with certain corporate actions requiring the approval of particular board members)

- Investors get a “Liquidation Preference” in the event of a liquidity event of the company
- “Liquidity events” include M&A transactions
- A typical liquidation preference would provide the investors their money back before any other stockholders receive any proceeds
 - A “participating” liquidation preference entitles investors to their money back, plus the right to participate in the remaining amounts
 - Caps are often negotiated

Liquidation Preference

LUNCH - TERM SHEETS

Example of Fully and Non Participating Preferreds (assumes \$30m sale price and \$6m invested)

	<i>Shares</i>	<i>% o/s</i>	<i>Liquidation preference</i>	<i>Pro rata payment of remainder</i>	<i>Total proceeds</i>	<i>Total proceeds with no participation</i>
Seed	1,000,000	13.33%	\$1,000,000	\$3,200,000	\$4,200,000	\$4,000,000
A	1,875,000	25.00%	\$5,000,000	\$6,000,000	\$11,000,000	\$7,500,000
Common (founders)	3,500,000	46.66%	N/A	\$11,200,000	\$11,200,000	\$14,000,000
Option pool	1,125,000	15.00%	N/A	\$3,600,000	\$3,600,000	\$4,500,000
Total	7,500,000	100.00%	\$6,000,000	\$24,000,000	\$24,000,000	\$30,000,000

- Accruing/non-accruing
- Compounding/non-compounding
- Payable on specified dates/payable “if, as and when” declared
- Participating/non-participating

- Preferred stock convertible into common stock at option of holder, initially on one for one basis
 - Automatically convert upon an IPO
 - Typically size of deal and share price must exceed certain levels
 - Consider adding direct listing, de-SPAC
 - Automatically convert upon the vote of all preferred stock or particular series

Antidilution protection

LUNCH - TERM SHEETS

- Conversion rate adjusts on certain events
 - Proportionate in the event of stock splits
 - Price based antidilution upon a “down round” financing
 - Weighted average protection: Conversion price is adjusted based on a formula that considers the number of new shares being issued compared to the shares outstanding and the price at which the new shares are issued
 - Full ratchet protection: Conversion price is adjusted so that the price per share is reset to the price per share in the new financing, regardless of the number of shares issued and the price at which they are issued.
 - Provide for appropriate carveouts to antidilution protection (i.e., for option issuances, strategic warrants, etc.)

Board composition/Voting rights

LUNCH - TERM SHEETS

- Companies are controlled by the board of directors
 - Control over the board means control over the company
 - Typical board composition post Series A investment is two founders, two Series A investor representatives and one industry expert/independent
- Even if board approves, “protective provisions” require preferred holders to approve certain events, including:
 - Change of control transactions
 - Amendments to charter/bylaws
 - Hiring/firing senior management
 - Issuing senior securities
 - Increasing size of the option pool
 - Incurring debt

- Redemption
- Registration rights
- ROFR/Co-Sale
- Preemptive rights

Last but not least, legal expenses!

Thank You



Patent Strategy for the New Enterprise



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Patent Agent + Law School (PALS) Tuition Program @ Wilson Sonsini

- **How does PALS work?**
 - PALS offers tuition assistance to help cover law school costs for qualified patent agents who express interest in a career with WSGR as a patent attorney.
- **Who is eligible for the program?**
 - Eligible full-time and part-time employees may apply to the program immediately upon hire.
- **When can I apply to PALS?**
 - Applications are accepted in May.
- **Will I receive an offer to join the firm as an attorney?**
 - PALS participants are highly motivated patent agents who maintain a record of excellent performance at the firm. While an offer cannot be guaranteed, we are confident that our accepted participants have the potential to become patent attorneys.
- **What does the firm expect from me while in the PALS program?**
 - The firm believes that PALS participants should primarily focus on their studies. As such, billable hour requirements will be reduced during law school attendance. PALS participants are invited to attend relevant in-house training and participate in social activities in the firm's Summer Associate Program prior to their final year of law school. The goal is to establish a strong network within the firm, both inside and outside the patents and innovations practice.

- Why IP?
- Forms of IP protection
- Trade Secrets
- Patents 101
- Patentability
- Freedom to operate
- Typical patent timeline
- Patent portfolio strategies

Why IP? Startups and the Financing Market

PATENT STRATEGY FOR THE NEW ENTERPRISE

- IP protection (especially patent strategy) enables your business goals:
 - Secure financing
 - Enable exit strategy
- In an innovator company (e.g., a life science, clean tech company, certain electronic companies), a large part (sometimes nearly all) of the value in the early stage is found in its IP.
- You must have this part right.

Forms of IP Protection

PATENT STRATEGY FOR THE NEW ENTERPRISE

- Types
 - Trade Secrets
 - **Patents**
 - Copyrights
 - Trademark
 - FDA exclusivity
- Most companies use ALL forms of IP protection to some degree.
- Patents are generally the most important form of IP for innovator companies
 - For example, a life science company may register its name and make efforts to keep day-to-day things secret, but otherwise rely (roughly entirely) on its patent portfolio.

What is a trade secret?

PATENT STRATEGY FOR THE NEW ENTERPRISE

- **Trade Secret:** Information (e.g., a formula, pattern, practice, method, technique, compilation of information) which (1) derives economic value from not being generally known or reasonably ascertainable and (2) is the subject of reasonable efforts to maintain secrecy.
 - Example: Coke's formula
- Term: theoretically indefinite.
- Good as long as the information is kept a secret.

All company information should be presumed to be confidential

Necessary to protect competitive advantage

Necessary to protect trade secrets

Necessary to protect collaborator information

Companies should use “reasonable” efforts to maintain secrecy

PATENT STRATEGY FOR THE NEW ENTERPRISE

Policies for Consideration

- Labeling agreements as confidential
- Execute confidentiality and non-disclosure agreements with employees and any third parties
- Implement (and periodically review) written policy
- Train employees on trade secrets
- Institute sensible security precautions (e.g., locks, company-issued identification, etc.)
- Use “dummy codes” to prove unlawful copying
- Encrypt data
- Physical barriers

Avoiding Trade Secret Misappropriation

PATENT STRATEGY FOR THE NEW ENTERPRISE

Misappropriation

When someone improperly uses or improperly discloses a trade secret. Note that misappropriation can occur when someone discloses or uses a trade secret without consent of the trade secret holder when, at the time of disclosure, he or she had reason to know that knowledge of the trade secret was:

- Derived from someone who obtained it through improper means;
- Obtained under circumstances that gave rise to maintain its secrecy or limit its use; or
- Derived through a person who owed a duty of confidentiality to the trade secret owner.

Common Scenario

Life science company A hires an employee who used to work at company B. Employee uses trade secret information from company B in his or her work with company A.

Note: Employment agreements should require the employees affirm that are not bringing trade secrets from a former employer.

- A patent conveys the **right to exclude** others from making, using, selling, offering for sale, or importing the claimed invention for the term of the patent
- Bargain between the inventor and the government
 - In exchange for disclosing your invention to the public (rather than keeping it a secret), the government will let you keep other people from using your idea for a period of time
- Extent of patent protection
 - The claims define the scope of the patent right
 - Term: ~20 years from the filing date (but there are exceptions)
 - Patents are obtained and enforced on a country-by-country basis
 - Enforcement is limited to within the country's borders
 - It can be expensive, especially if broad ex-US protection is sought
- A patent does not mean you are free to use the patented invention (others may have “blocking” patents)

Patentability and Freedom to Operate

PATENT STRATEGY FOR THE NEW ENTERPRISE

Patentability

How your innovation differs from the prior art and qualifies for patent protection

Freedom to Operate (FTO)

Whether third parties have patents that would be infringed by use of your technology

- “Freedom to Operate” is never certain and requires on-going inquiry, as new patents are published every week
- FTO analyses help you identify competitors, avoid infringement issues, inform IP strategy, and identify opportunities to expand your own patent portfolio
- Knowledge allows for informed decision making
- If you have concerns or questions regarding third-party IP, or identify any potentially relevant third-party IP, arrange for discussion with IP counsel before discussing with a third party
- Forward letters from third parties regarding their IP to your IP counsel

Requirements for Patentability

PATENT STRATEGY FOR THE NEW ENTERPRISE

- Subject matter eligibility
- New – or “**Novel**”
- Inventive – or “**Non-obvious**”
 - Obviousness is a function of time
 - Early filing reduces the amount of prior art
- Disclosure: You must describe to the world how to make/use the invention
 - Broad claims generally require more disclosure than narrow claims

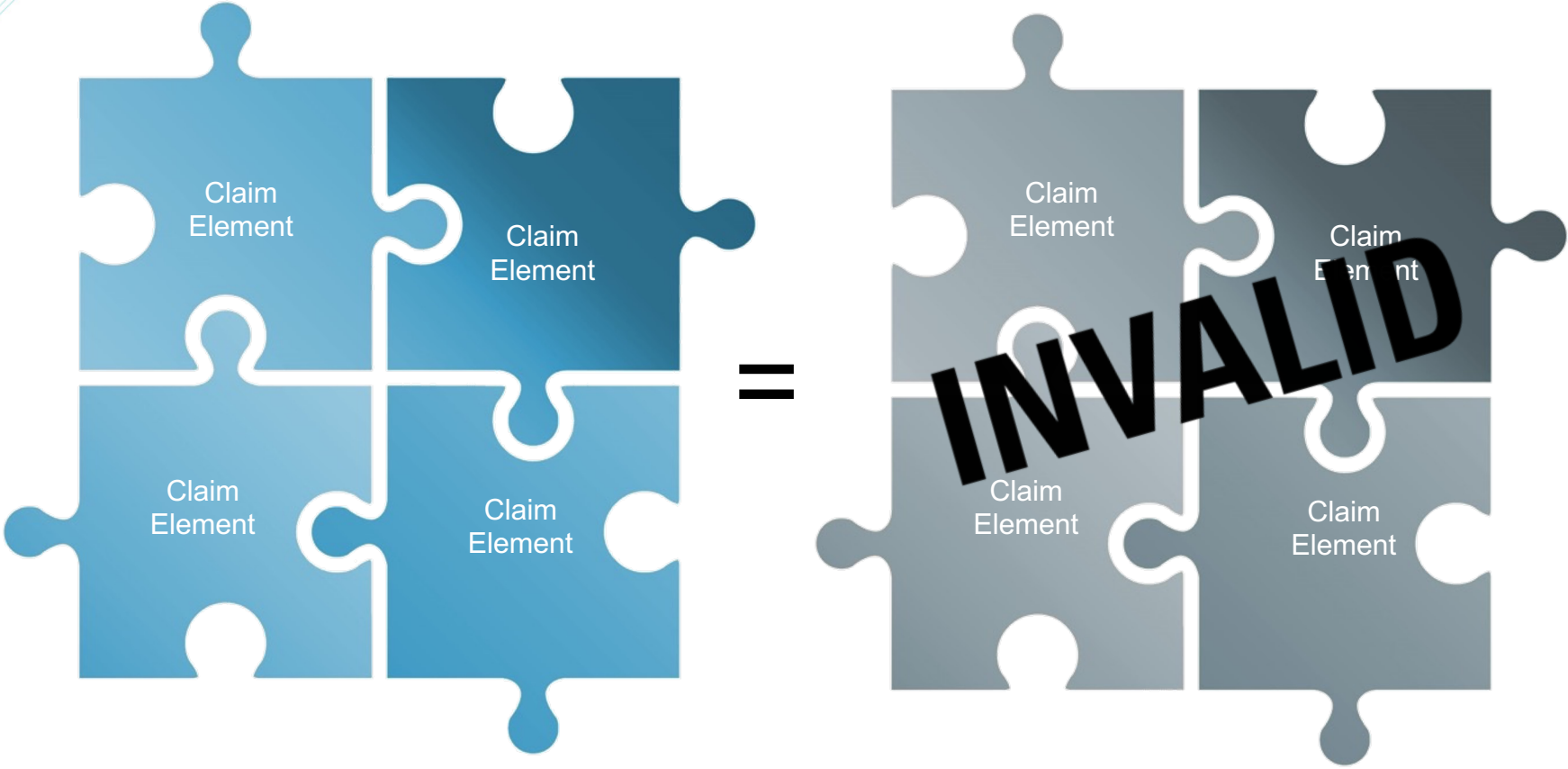
Subject Matter Eligibility— What Can You Patent?

PATENT STRATEGY FOR THE NEW ENTERPRISE

- ANYTHING! (well, almost...)
- Devices, compositions, methods, kits, software, hardware, apps, compounds, diagnostic assays (including CDx), etc.
- Careful attention necessary for diagnostics, natural products, and software due to judicial exceptions to broadly worded patent eligibility statute

Single Prior Art Reference

Patented Claim



In Determining Obviousness, Assume That All the Relevant Prior Art Is Known to a Person of “Ordinary Skill”



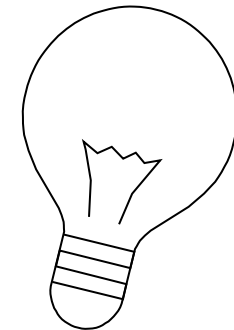
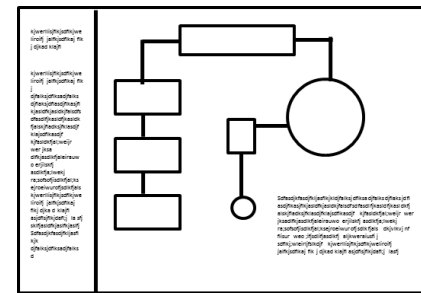
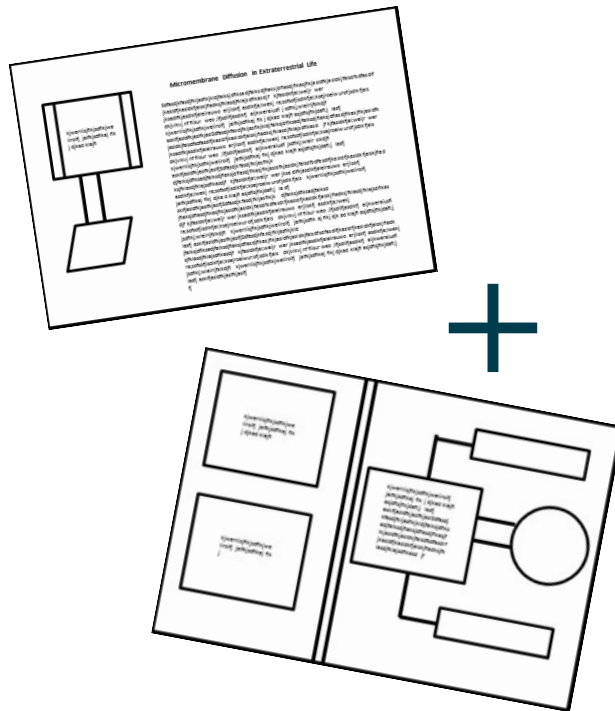
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How Do Examiners Show Obviousness?

PATENT STRATEGY FOR THE NEW ENTERPRISE

If multiple pieces of prior art have all the elements of a patent claim and one of ordinary skill in the art would have been able to combine them, then the claim is **invalid**.

If one piece of prior art contains most of the elements of a patent claim and one of ordinary skill in the art would have added anything that is missing, then the claim is **invalid**.



Patent vs. trade secret

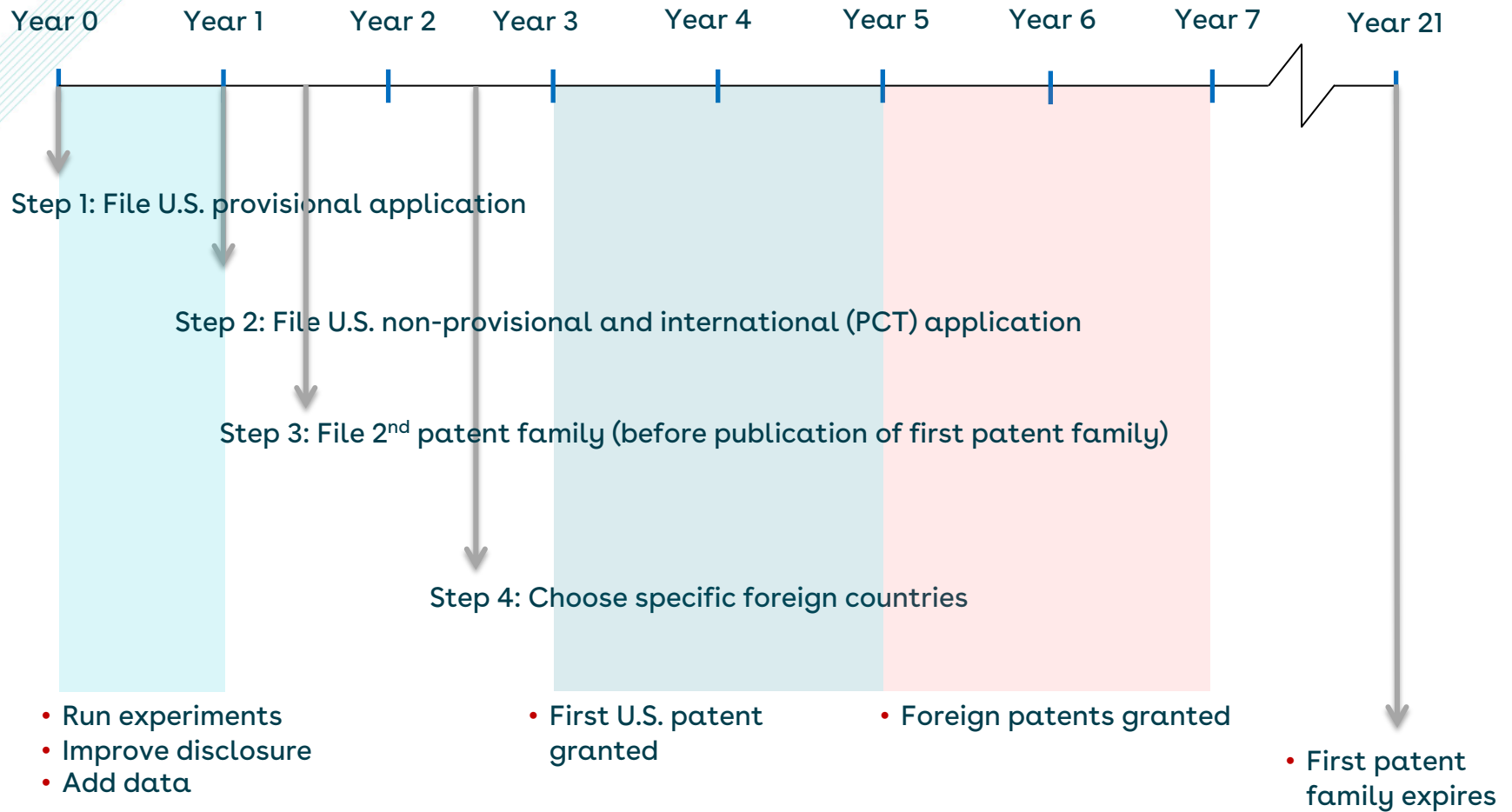
PATENT STRATEGY FOR THE NEW ENTERPRISE

Consideration	Patent	Trade Secret
Requirements	Requires invention to be useful, novel, and non-obvious	No requirements aside from being secret and having economic value
Subject matter	Restricted	Not restricted
Duration	Expires ~20 years from filing date	Potentially protectable forever
Process for obtaining protection	Placing invention in the public domain via patent application	Maintaining secrecy and employing procedures for safeguarding information
Protection against independent invention / reverse engineering	Protects patent owner's investment	Risks loss of invention to others by independent discovery or reverse engineering

- Reasons to seek patent protection instead of trade secret protection
 - Offensive: Patenting allows you to stop others, even if they would otherwise be able to practice your technology through independent invention or reverse engineering
 - Defensive: Patenting/publishing prevents others from getting a patent that would prevent you from practicing your invention
 - Generally, patent protection is better than trade secret protection for inventions that are easy to reverse engineer

Typical Patent Timeline

PATENT STRATEGY FOR THE NEW ENTERPRISE



Patent Portfolio Life Cycle Management

PATENT STRATEGY FOR THE NEW ENTERPRISE

May be advantageous for a later-filed patent family to be filed before publication of a previous patent family

Year 0 Year 5 Year 10 Year 15 Year 20 Year 25 Year 30 Year 35 Year 40

First Patent Family

- Protects key scientific discovery
- Platform or genus-based claims (for spinout, could be in-licensed from university)

Second Patent Family

- Protects key improvement or optimized product

Third Patent Family

- Protects perfected commercial product

PTE

FDA allows an extension of one patent for up to 5 years upon FDA approval (for new therapeutic)

Provisional v. Non-Provisional Applications

PATENT STRATEGY FOR THE NEW ENTERPRISE

Provisional

- Does not start the 20-year clock for patent term (effectively extending patent protection into the future by 1 year)
- Subject matter not examined
- Expires after one year (i.e., must “convert” w/in one year)
- If there is intervening art between the filing of the provisional and the non-provisional, support may be questioned

Non-Provisional

- Starts the 20-year clock for patent term
- Gets into the queue immediately for examination
- Typically ~2-4 years for examination in the US, but consider accelerated prosecution strategies

Try to avoid potential pitfalls of provisional patent applications

PATENT STRATEGY FOR THE NEW ENTERPRISE

Same legal standard for technical disclosure and detail as regular patent applications

Should not be treated as a shortcut

May give false sense of security and protection resulting in loss of rights and opportunity

- For example, publication after filing of a provisional application may unnecessarily force you to convert a patent application that may not be in the optimal shape for seeking patent protection
- This early (and often ill-prepared application) may become a prior art obstacle to later filings

Beware of filing serial provisional applications with overlapping disclosure if there is some risk that you won't wish to convert the application

Generally recommend filing as early as you can provide an enabling disclosure and following up with patent attorneys as progress is made over the next 12 months

Freedom to Operate (FTO) Considerations

PATENT STRATEGY FOR THE NEW ENTERPRISE

- Search for relevant third-party patent applications and examine the scope of the claims
 - Keyword, competitor, sequence, and structure-based searches
- **“Blocking Patent”** scenario
 - Note that you may need to license a third-party patent even if your product/service has been patented
- **“Comprising”** claims are “open-ended”
 - A patent claim to “a table comprising three legs” covers a table having 3 or more legs (e.g., a four-legged table)
- 35 USC 271(e)(1): This **“safe harbor”** provision is a relatively narrow exception that exempts certain activities (typically relating to drug products) from constituting patent infringement:
 - Activities “reasonably related” to FDA approval, such as data developed in clinical trials for FDA approval
 - Limited to activity occurring before regulatory approval
 - Note: Safe harbor may not protect against infringement of “research tool” patents

Novelty issues:

- As a practical matter, you must file *before* public disclosure or offers for sale, especially if you wish to seek protection outside of the U.S.
 - In the US, you have a one-year *personal* grace period
 - In many ex-US jurisdictions, there is no grace period
 - Since investors require ex-US protection, get applications on file ***before*** any public disclosure or offer for sale

Kinds of disclosures

- Publications, grants, presentations, abstracts, drawings on napkins

Ways around unwanted disclosure

- Keep quiet
- Use NDAs to create presumption of confidential, non-public disclosure
- Get applications on file



WANT AN EXAMINATION QUICKLY?

USPTO programs offering fast and efficient patent examination

The USPTO has established procedures under which examination of a patent application may be expedited. The USPTO will advance an application for examination providing special considerations are met. Visit individual program sites on USPTO.gov for more details.

Track One Prioritized Examination



First Action in less than 5 months and final disposition objective is within 12 months

- Faster time to first action
- Request must be filed via EFS web and fee required at the time of filing
- No additional examination-related support documents
- Application limited to no more than 30 total claims (4 independent claims maximum)
- Prioritization fee: \$4000 (\$2000 small, \$1000 micro)

http://www.uspto.gov/patents/init_events/Track_One.jsp

Prioritized examination generally results in examination by the patent office ~1 year earlier
(depending on the art unit)

Thank You



Intellectual Property: Licensing



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University Technology Transfer Goals

INTELLECTUAL PROPERTY: LICENSING

- Knowledge Dissemination and Public Benefit
- Economic Development
- Entrepreneurial Energies of Faculty
- Industrial Ties
- Income

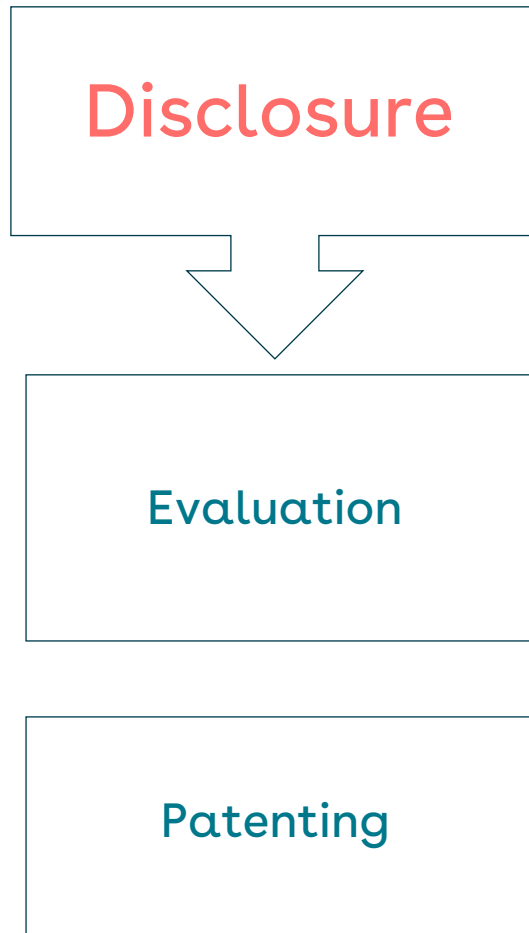
Getting the Ball Rolling for the University Researcher

INTELLECTUAL PROPERTY: LICENSING

- It is **never too early** for a University researcher to meet with the technology transfer office.
- At the University of Utah, contact the PIVOT Center.

If you think you have an invention

INTELLECTUAL PROPERTY: LICENSING



- Disclose your inventions to the technology transfer office (Pivot Center)
- Patentability, commercial potential, etc. are evaluated; marketing to potential licensees
- If the University decides to file a patent, outside patent attorneys are engaged

PIVOT Center Toolbox

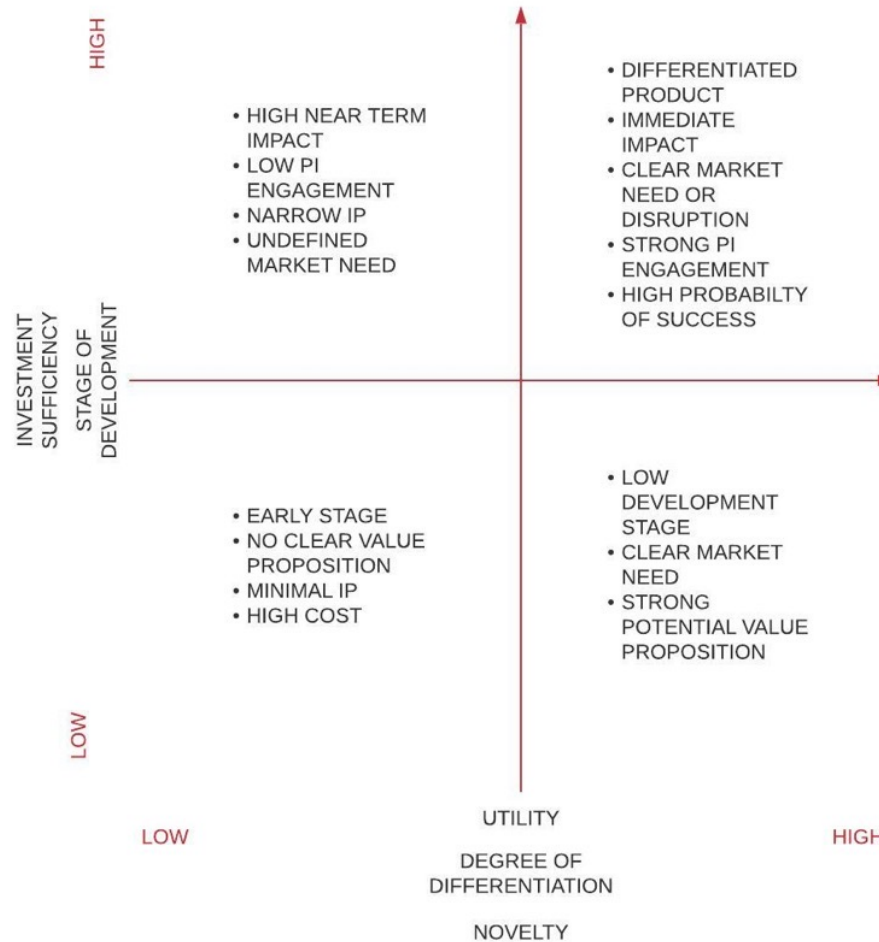
INTELLECTUAL PROPERTY: LICENSING

- GREENHOUSE INITIATIVE
- ASCENDER GRANT
 - PROTOTYPING
 - VALIDATION
 - CLINICAL SIGNIFICANCE
- CENTER FOR MEDICAL INNOVATION
- EXTERNAL SERVICE PROVIDERS FOR PROTOTYPING AND TECHNICAL VALIDATION
- IDENTIFICATION OF OTHER FUNDING OPPORTUNITIES
- PRIMARY MARKET FEEDBACK/CUSTOMER DISCOVERY
- ADDITIONAL SME GUIDANCE TO TAILOR OPPORTUNITY TO UNMET NEED
- MENTORING AND STRATEGY CREATING THROUGH IN RESIDENCE PROGRAM
- INDUSTRY OUTREACH
- LEAN LAUNCH AND I-CORPS
- PATENT FILING & PROSECUTION
- REGULATORY GUIDANCE
- EDUCATION PROGRAMMING (ENTREPRENEURIAL LEARNING INITIATIVE)
- CROSS CAMPUS COLLABORATION FOR OPP ADVANCEMENT
- SPONSORED RESEARCH
- MARKETING PR AND SOCIAL NETWORKING
- TEAM DEVELOPMENT
- ENGAGEMENT TO ITERATE BASED ON UNMET NEEDS/INDUSTRY REQUIREMENTS
- LICENSING
 - LBTI
 - SIMPLE LICENSE WITH RESOURCE LIST
 - STANDARD
- RELEASE TO FUNDING INSTITUTION



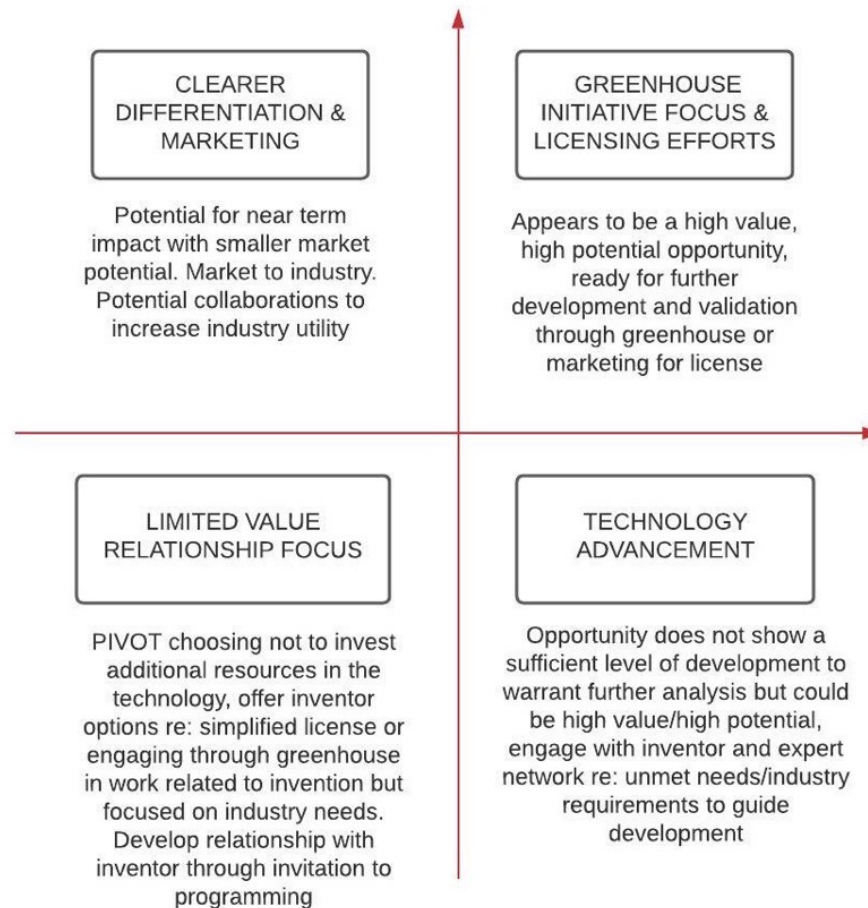
PIVOT Center Assessment Matrix

INTELLECTUAL PROPERTY: LICENSING



PIVOT Center Assessment Matrix Outcomes

INTELLECTUAL PROPERTY: LICENSING



PIVOT Center Assessment Information

INTELLECTUAL PROPERTY: LICENSING

GOAL: Determine where the opportunity is now, where it has the potential to be, and how PIVOT can support getting it there.

STEPS:

1. ASSESS THE OPPORTUNITY
2. ALLOCATE RESOURCES
3. COMMUNICATE PROGRESS

BROAD GUIDELINES:

- Stage 0 - SCREENING, TWO WEEKS/DEPENDS ON INVENTOR SCHEDULING
- Stage 1 - SME FEEDBACK, TWO WEEKS
- Stage 2 - LANDSCAPE ASSESSMENT, FOUR WEEKS
- Stage 3 - VALIDATION AND STRATEGY, FOUR WEEKS

The Company's Goals

INTELLECTUAL PROPERTY: LICENSING

- Create value for society; get products to patients
- Develop and sell products and generate revenue
- Have a strong market position and presence
 - Value of ties to the university
- Build a strong intellectual property position
 - Exclusive license: ability to exclude others and maintain exclusive market
 - Non-exclusive license: obtain freedom-to-operate
- Obtain financing
- Attract employees

Licensing in technology is one important way to acquire rights to intellectual property

What is a *License*?

INTELLECTUAL PROPERTY: LICENSING

- A contractual transfer of less than all the rights (not ownership). Substantially all of the rights under a patent or other IP can be transferred by license.
 - Patents (and patent applications)
 - make, use, sell, import....
 - Know-How/Trade Secrets
 - Use (owner can prevent disclosure and use)
 - Copyrights
 - reproduce, adapt (prepare derivative works), publish, perform, display, distribute, ...
- Acquiring all the rights/ownership is a sale, not a license.

What to Expect when Licensing University Technology

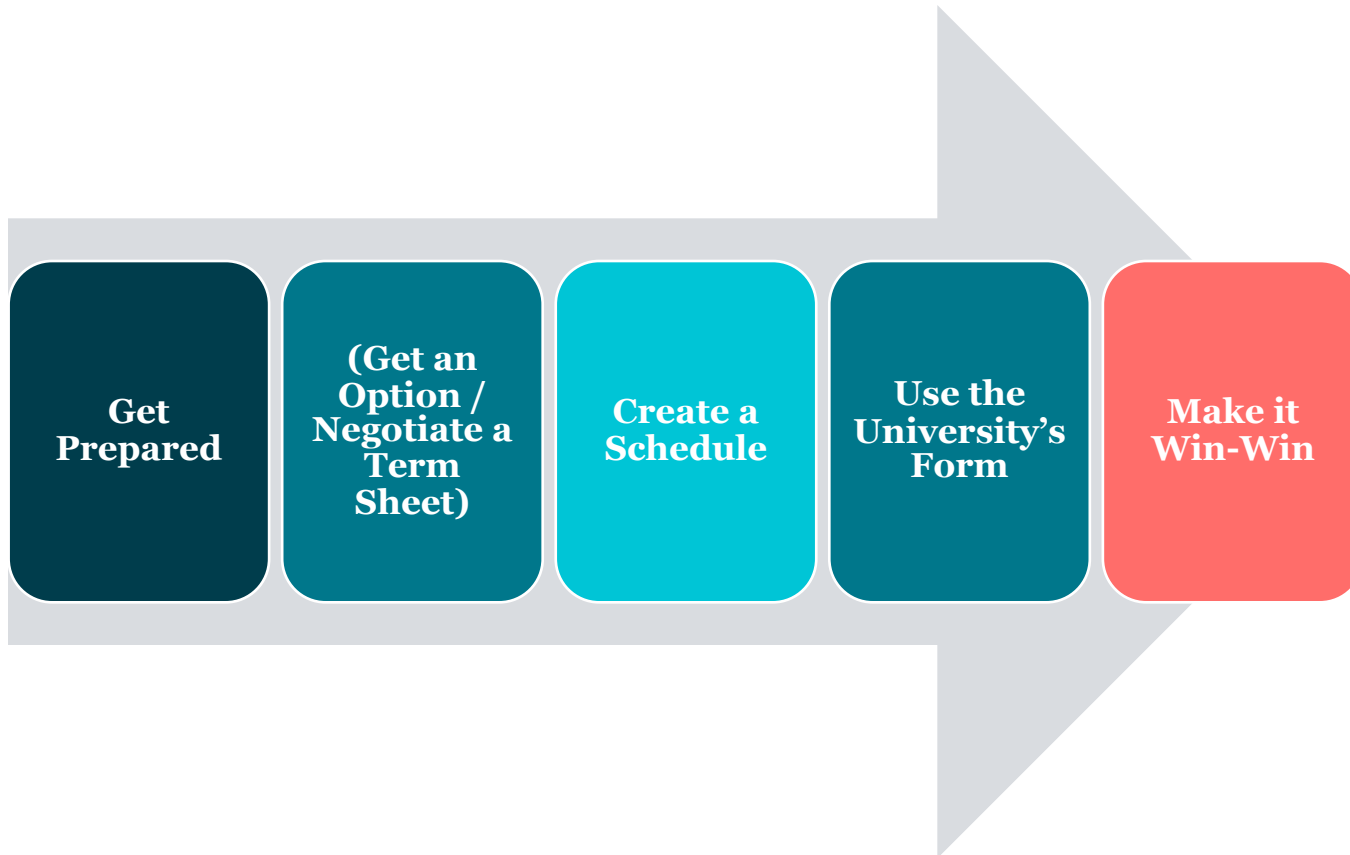
INTELLECTUAL PROPERTY: LICENSING

- The university owns the intellectual property created under their patent policy
- The technology transfer office is responsible for managing the intellectual property asset of and for the university.
 - The university will retain contractual control over the prosecution of patents, but will grant first rights to enforce them. Company counsel typically has a good deal of input into prosecution.
- The technology transfer office wants to get the technology out to the public for society's benefit as part of the university's public service mission. This will be done pursuant to a license.
- The university will retain certain rights to practice the intellectual property for research and educational purposes.
- The university wants a fair share of the returns should the company commercialize the technology

- The inventing faculty are most likely going to stay faculty. All co-inventors will receive a personal share of any consideration the university receives.
- Faculty can consult for startups, while abiding by the university's conflict-of-interest rules and IP policies.
 - University lab can't be used to do for-profit R&D, but sponsored research may be possible.
 - Students' work must be advancing them to their degree.
 - Faculty member must still fulfill his or her faculty role.
 - University policies include rules for consulting arrangements (how much time can be spent, limitations on titles/use of university resources, dean approvals, etc.)

Licensing: Steps for Success

INTELLECTUAL PROPERTY: LICENSING



Get Prepared (Part I)

INTELLECTUAL PROPERTY: LICENSING

- Evaluate the business opportunity
 - The product
 - Market size and share
 - Existing players
 - The technology fit
 - Strength of IP
 - Pricing/margins
 - Investment requirements
- Talk to others
 - Colleagues/Friends
 - Attorneys
 - Other entrepreneurs
 - Investors

Get Prepared (Part II) - IP Diligence

INTELLECTUAL PROPERTY: LICENSING

- Patents:
 - Patents/Applications – scope
 - Prior art
- Inventorship/ownership
- Third party patents? (FTO or “must have exclusively”)
- Any other relevant licenses?
- Do you have all the rights you need?
- If not, understand what you want to license
 - Patents, software, know-how, materials

Get Prepared (Part III) - Licensing

INTELLECTUAL PROPERTY: LICENSING

- Type of license: Exclusive, non-exclusive, evaluation?
- Field of Use
- Business/Development plan
 - how will the Company develop the technology?
 - what is the time scale?
 - What is the company's business model?
 - Partnering/out-licensing
 - Providing services
 - Selling products
 - What types of partners will you work with and what rights will they need?
- How will the company evolve?

Action: ask for the license

INTELLECTUAL PROPERTY: LICENSING

Tell the company's story and convince the technology transfer office that your company is the best company to commercialize the technology!

Typical Elements of a License

INTELLECTUAL PROPERTY: LICENSING

Economic Terms

- Upfront
- Equity
 - Anti-dilution
 - Participation rights
- Royalty
- Maintenance Fees
- Milestones
- Sublicensing Revenue
- Patent Costs
- Exit Fees

Non-Economic Terms

- Scope of IP (subject matter, field of use)
- Exclusivity
- Retention of rights
- Diligence
- Sublicensing Restrictions
- Patent Prosecution
- Patent Enforcement
- Assignment of the License
- Use of Name
- Option to new IP
 - Improvements
 - SRA

Non-Economic Terms (Allocating Risk)

- Insurance
- Indemnification
- Limitation on Liability
- Warranties

Sample License Term Sheet

INTELLECTUAL PROPERTY: LICENSING

- Exclusive or Nonexclusive
- Licensed Products
- Field of Use
- Licensed Territory
- Term of License/Term of Exclusivity (if exclusive)
- License Issue Fee
- Equity (if start-up)
- Minimum Annual Payment
- Earned Royalty
- Milestone Payments
- Patent Expenses
- Sublicensing
- Diligence Milestones
- Change of Control/Assignment Fee

PRO

- Financial/business terms are clear
- Don't have to deal with the actual words in an agreement
- Big issues are resolved

CON

- Takes a lot of time
- You still have to put it into an agreement with actual words
- Sometimes the other clauses are problematic

Term sheets are regularly the first step in aligning on terms. They are sometimes negotiated in conjunction with or subsequent to an option agreement.

PIVOT Licensing Practices

INTELLECTUAL PROPERTY: LICENSING

- Simplify the process
- Simplify the documents
- Simplify the terms
- Maximize the results

PIVOT Licensing Practices – Options

INTELLECTUAL PROPERTY: LICENSING

- Secure the technology
 - Build a team
 - Develop a business case
 - Identify funding
-
- Lower costs
 - Simplified terms
 - Access to resources

PIVOT Licensing Practices – Term Sheet and License

INTELLECTUAL PROPERTY: LICENSING

Term Sheet

- Don't burn time and money unnecessarily
- Determine if it is a partnership or transaction
- Finish it up, Stucky.

License

- More education than negotiation
- There is a limit
- The best negotiation

Come to an understanding with the university about time expectations

INTELLECTUAL PROPERTY: LICENSING

- Set expectations on how fast the negotiations should go
- Be realistic
- If you want the other side to meet its schedule, make sure to live by yours
- **Communicate often—follow up**

Use the University's Form

INTELLECTUAL PROPERTY: LICENSING

- Avoids need for extensive revision (saves time)
 - Addresses university's needs/concern
 - Often specific language has been mandated
- You will get an opportunity to negotiate
- Things that are generally required:
 - Indemnification
 - Insurance
 - Diligence
- Things you won't get:
 - Ownership of university inventions
 - Ability to block publication
 - Extensive representations & warranties

Consider an Option/Letter of Intent (LOI)

INTELLECTUAL PROPERTY: LICENSING

- Not a license, but often a simpler first step
- Objective: obtain an exclusive right to negotiate a (more often, exclusive) license to the technology of interest for a defined period
- Strategic decisions:
 - include key terms?
 - Include an evaluation license?
- Option period: generally 6-18 months
- Fee (typically nominal)
- Ongoing patent costs
- Can facilitate a financing
- Considerations:
 - Is there competition for the technology?
 - Do you need time to decide whether to take the license or raise funds?
 - Are you sponsoring related research in the meantime?

“Express” Licenses

INTELLECTUAL PROPERTY: LICENSING

- Benchmarked
- Investor-friendly
- Optional
- Only for University of Utah researchers
- Fixed terms
- No negotiation

Make It Win-Win (It's only the beginning)

INTELLECTUAL PROPERTY: LICENSING

- **Communication is key**
- The negotiation/agreement is only the beginning of the relationship – you will likely interact again and again
- If it is a good relationship, you can fix anything; if it's not, it's not going to work well
- Stay above the fray—(let the attorneys be the bad guys?)
- Keep perspective—it's about creating a successful company/product not getting a perfect agreement

Thank You

Business Plans, Fundraising, and Valuation



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The Business Plan

BUSINESS PLANS, FUNDRAISING, VALUATION

- Objectives:
 - Convey to others (e.g. investors, licensors, partners) what you will do with their money
 - Force yourself to figure out how you will build and operate your company
 - Demonstrate that you understand the space and have thought about the challenges

- What's it's not:
 - An investor pitch deck (although it will inform and guide that)
 - A strategic plan (although it should contain your mission and longer-term goals)

Business Plan Contents

BUSINESS PLANS, FUNDRAISING, VALUATION

- Easy to read and navigate
- Key Questions the Plan Should Address:
 - One-line mission statement. What is it that you are trying to do with this company?
 - What do you do specifically?
 - What is the addressable market?
 - What makes you different?
 - How far along are you and what's next?
 - Why now? Explain why now is the right time to do this (and invest)
 - Team description (management/board/advisors) and why it will succeed
- This just starts the dialogue – it's not a Ph.D. thesis
- Keep length to a few pages for now; as company gets more defined, the BP can be refined/expanded

PowerPoint Business Plan

BUSINESS PLANS, FUNDRAISING, VALUATION

- No more words than necessary
- Don't waste time on the obvious
- 10-15 slides
- Same substantive points as Exec Summary, but now with 1-2 slides per point rather than 1-2 sentences
 - Third-party market data
 - What 1-5 immediate tasks are you focused on? It may be a fundraising round, prototype, customer or revenue metric, regulatory approvals, or hires to make.
 - Revenue model
 - Differentiators
 - The team and key advisors (one slide)

Financials and Projections

BUSINESS PLANS, FUNDRAISING, VALUATION

- Projections for cash flows, including burn rate and dry date (include P&L if you're generating revenue)
- Show how funding enables/accelerates growth
- How long does the funding take you and how much more do you need and when?
- Include realistic milestones that funding will enable
- Don't say: "The market is \$50B, but we are conservative, assume we'll get merely 6%."
- **Everyone suspects the projections won't come true – it's the process and thinking that counts, and yes, it's a test**

Risks and Mitigations

BUSINESS PLANS, FUNDRAISING, VALUATION

- Identify your top risks and uncertainties
- What can be done to reduce key risks pre-financing?
- What can be done to reduce key risks cost-effectively post-financing?
 - Identify your use of proceeds and how a cash infusion may accelerate growth, timing, etc.
 - Identify other elements beyond cash that you want investors to bring to the table (i.e., partners, additional management, strategic perspective, etc.).

Get to Know Your Investor

Know Thy Investor

Gain a deep understanding of your audience, whether it be investors or prospective strategic partners



- ? **Investor Type:** Institutional VC, corporate VC, angel?
- ? **Investment Strategy:** Preferred focus area, stage, round size, geography, availability of funds, exit preferences?
- ? **Background & Interests:** Scientist or banker? Previous experiences?
- ? **Previous Investments:** Relevant previous investments? Active portfolio conflicts?
- ? **Network:** Existing relationships at the firm?

INVESTORS WILL DO THEIR HOMEWORK, AND SO SHOULD YOU!

Key Considerations Before an Outreach

Beyond developing the requisite investor materials, a “bullet-proof” internal strategy should be carefully developed to help guide your outreach process



- Valuation – The value of the company, typically expressed in pre and post money numbers
- Investors are focused on what percentage of equity interest they will have
 - “We’re willing to put \$2M in at a \$3M pre-money valuation”
 - “We need to have 40% of the company if we are going to invest \$2M”
 - When VC’s say they want a 40% stake in the Company for a \$2M investment, then the pre-money is \$3M and post-money is \$5M (i.e. 40% of \$5M is \$2M)
- Factors that influence valuation:
 - Leverage and the fundraising environment
 - Technology and business milestones met
 - Size of market opportunity
 - Experience/track record of team
 - Market comparables
 - Terms of transaction control, other “levers”
- Is as much “art” as “science”

- Valuation is typically expressed in terms of pre-money and post-money
- Pre-Money is the valuation of the company before VC's invest
- Post-Money is the valuation after investment
 - $\text{Pre-money} + \text{VC Investment} = \text{Post-money}$
- Some exceptions when companies haven't yet done a "priced round" (e.g. SAFE or convertible note)

- Post-financing capitalization is viewed on a “fully-diluted” basis
 - Narrow-based formula – issued options
 - Broad-based formula – includes option reserves
- Option reserves
 - Option reserves are intended to provide for predictable hiring and retention of employees
 - How should the company determine the size of the employee reserve – conflicting objectives
- Valuations are market driven and depend in large part on the level of competition for the deal
- Valuations are sector specific
 - Life Science: stage of development, quality of data, IP coverage, unmet need and market potential
 - Social Media : Number of registered users and user engagement

Start-up Company Valuation Model

BUSINESS PLANS, FUNDRAISING, VALUATION

Example - Incorporation

- Founders A and B each purchase 1,750,000 shares of common stock at a purchase price of \$0.001 per share

Person	# Shares	% of Shares	Value
A	1,750,000	50%	\$1,750
B	1,750,000	50%	\$1,750
Total	3,500,000	100%	\$3,500

Start-up Company Valuation Model

BUSINESS PLANS, FUNDRAISING, VALUATION

Example – Establishment of Option Plan

- In order to attract employees, the company establishes an option plan and reserves 500,000 shares for issuance under the plan

Person	# Shares	% of Shares	Value
A	1,750,000	43.75%	\$1,750
B	1,750,000	43.75%	\$1,750
Option plan	500,000	12.5%	\$500
Total	4,000,000	100%	\$4,000

Start-up Company Valuation Model

BUSINESS PLANS, FUNDRAISING, VALUATION

Example - Initial Financing Round

- The company completes a \$1,000,000 seed capital financing round of Series Seed Preferred Stock at a purchase price of \$1.00 per share, representing a \$4,000,000 pre-money valuation.

Person	# Shares	% of Shares	Value
A	1,750,000	35%	\$1,750,000
B	1,750,000	35%	\$1,750,000
Option plan	500,000	10%	\$500,000
Series Seed	1,000,000	20%	\$1,000,000
Total	5,000,000	100%	\$5,000,000

Start-up Company Valuation Model

BUSINESS PLANS, FUNDRAISING, VALUATION

Example – Series A Financing Round

- The company then completes a \$5,000,000 Series A financing at a \$15,000,000 pre-money valuation, at a purchase price of \$2.67 per share. The option pool is set at 15% post financing.

Person	# Shares	% of Shares	Value
A	1,750,000	23.33%	\$4,666,667
B	1,750,000	23.33%	\$4,666,667
Option plan	1,125,000	15%	\$3,000,000
Series Seed	1,000,000	13.33%	\$2,666,667
Series A	1,875,000	25%	\$5,000,000
Total	7,500,000	100%	\$20,000,000

Final Thoughts

***Building a Company Is Hard Work - Acknowledge and Embrace The Challenges
You Will Face Everyday***

Some parting quotes:

"A small group of thoughtful people could change the world....indeed it's the only thing that ever has."

--Margaret Mead

"If opportunity doesn't knock, build a door."

--Milton Berle

Thank You



Avoiding Founder Disputes and Employment Hiring Strategies



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Founder's Stock

AVOIDING FOUNDER DISPUTES AND EMPLOYMENT HIRING STRATEGIES

- What is it?
 - Common Stock issued to founders of a company in consideration of a contribution of intellectual property rights and a nominal cash payment.
 - Founders stock issued in a “C” corporation can have substantial tax benefits as qualified small business stock.
- How do you go about allocating the founders’ stock?
 - No right or wrong answers, but key questions to ask:
 - How does the allocation agreed weigh prior contributions and expected future contributions?
 - How will investors feel about the incentive structure created by the allocation?
- Founders’ Stock
 - Restricted Stock Purchase Agreement
 - Basic Tax Principles (Sweat Equity Issues)
 - Vesting
 - Acceleration Terms (Single Trigger v. Double Trigger)
 - 83(b) Elections

- Vesting Terms
 - What is vesting?
 - The right of a company to buy back unvested shares at their original purchase price.
 - What does this mean for the dismissed founder?
 - Vesting Structures – Vesting Term; Use of “Cliff Vesting”
 - Should Founder's Stock be subject to vesting?
 - Where there are multiple founders, the answer will almost always be “yes” to avoid the problem of potential free riders.
 - Otherwise, could be deferred until actual investment, but some people prefer to pre-bake terms for investor consideration based on what the founders consider reasonable.
 - Change of Control and Other Protections

Stock Options

AVOIDING FOUNDER DISPUTES AND EMPLOYMENT HIRING STRATEGIES

- While “founders” typically receive initial grants in the form of “founder’s stock,” employees hired after the founding more often receive “stock options.”
- A stock option is a contractual right to buy a fixed number of shares of common stock at a fixed price for a fixed period of time (typically 10 years, assuming continued status as an employee, director, or consultant of the company).
- Types of Options
 - Non-qualified stock options
 - Incentive Stock Options (tax advantaged, assuming exercised and holding periods)

- Option Terms
 - To avoid adverse tax consequences under 409A of the Internal Revenue Code, the exercise price of a stock option must equal no less than the fair market value of the underlying share of common stock on the date the option is granted
 - Regulatory scheme under IRS rules for addressing 409A compliance
 - Exercisable for 90 days following a termination as an employee, director, or consultant
 - Typically vest in Silicon Valley over 4 years, and initial grants are usually subject to “cliff vesting” with the first 25% vesting after one year

Stock Options

AVOIDING FOUNDER DISPUTES AND EMPLOYMENT HIRING STRATEGIES

- At private companies in Silicon Valley, stock option grants are broad based and shared across the organization. Historically, this was intended to compensate for lower levels of cash compensation, but this is less true as large Silicon Valley companies like Google and Apple drive salaries higher.

Hiring Considerations

AVOIDING FOUNDER DISPUTES AND EMPLOYMENT HIRING STRATEGIES

- Interviewing Considerations
 - Identifying Needs & Timing for Key Functions
 - Disclosure Considerations
 - Need for NDA/Feedback Provisions
 - Conducting Interviews
 - Asking the Right Questions
 - Privacy Considerations
 - State Law Privacy/Consent Provisions
- Budgeting Considerations
 - Cash budgeting as well as stock option plan budgeting
 - Minimum Wage Requirements Under State Law

Employees vs. Consultants

AVOIDING FOUNDER DISPUTES AND EMPLOYMENT HIRING STRATEGIES

- Employees & Employee Compensation Obligations
 - Personal Liability of Directors and Officers
- Use of Consultants and Contractors
- Forms of Agreement
 - Employee Invention Assignment & Confidentiality Agreement
 - Consulting Agreement
 - Forms of Offer Letter
 - Non-competition Agreements

Thank You



Download presentation:

