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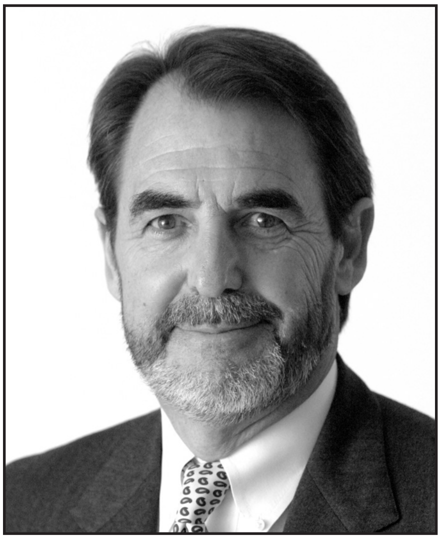

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IP ISSUES THAT KEEP STARTUP LAWYERS UP AT NIGHT

IT IS AXIOMATIC THAT LICENSE AGREEMENTS are supposed to memorialize who is granting to whom what rights in what "stuff," for what period and territory and for what purposes. ("Stuff" is a technical term.) Simple enough.

Well, not so fast. Technology attorneys are often approached by startup teams asking for help in IP transactions that have already happened, frequently without IP counsel involvement or even documentation. There are enough real-world examples of some part of this nexus collapsing under even cursory examination that it is worth a closer look at a few of the links in that causal chain.

Therefore, I have created a hypothetical stitching together some of my experiences and anecdotes from other attorneys to examine just a few of these links, notably the identity of the recipient in an IP transfer, the IP being transferred and just how it is transferred.

Our hypothetical group of entrepreneurs approached an attorney during a startup competition in Silicon Valley, seeking advice on license and assignment agreements they had signed with various developers in the last year. We'll call the entrepreneurs the "Gang of Five" and the various agreements "IP Agreements." Accordingly, individuals in the Gang of Five had signed agreements with developers and then created an app that they licensed onward. Several of the developers were based outside the US, with governing law provisions specifying the non-US jurisdictions of residence of those developers.

TO WHOM IS IP BEING TRANSFERRED?

Assuming that the "inbound" IP Agreements were valid, the developers did not transfer IP to the Gang of Five, either together as one entity or to each of the five of them. In this case, the Five Guys had not yet formed a corporation in *any* jurisdiction.

Ergo, no transfer of IP from multiple developers to *one* entity. The IP went to the individuals who signed the IP Agreements with the developers—and it was not always the same individual signing. So, one individual in the Gang of Five ended up with IP rights of two pieces of code, another held rights in a third piece and a third individual held the remainder. There are no written agreements among the individuals in the Gang of Five as to use of IP rights held by each individual.

For liability purposes, the Gang of Five could be seen as a general partnership—hence, joint and several liability. In other words, the usual limitation of liability afforded by a corporate entity does not exist. In the absence of any written assignment or other transfer among them, each of the individuals could not use the IP held by the other individuals in the Gang of Five. Now, those of you versed in partnership law might object and argue that the general partnership nonetheless had all the IP it needed for outbound licensing. Indeed, at trial, you might prove it to be so. But who wants the complexity of litigation (apart from litigators)?

At least two solutions come to mind, neither of them without complexity: If the Gang of Five did not want to incorporate, then all of the members could sign an agreement transferring IP rights to one individual, who then assumed responsibility for signing downstream licenses to their app. Better still: Incorporate now and contribute the IP into the new company (or LLC). Have the developers confirm (authorize) the contribution in writing.

WHAT IP IS BEING TRANSFERRED?

If one rule of drafting agreements is to follow the money, another is to follow the IP—more precisely, find the IP and then follow it. The question, then, is did the developers have the IP to transfer in the first place?

With developers who create code from scratch this issue is usually not a problem. They reduced the ideas to a tangible medium so they own it and can assign it. Most developers these days do not create (much) new code but rather use snippets found on the Web or use Open Source Software. Much ink has been spilled on OSS but what we know is that software can be licensed and that the OSS licenses are (generally) valid (see article on New Media Rights by Teri Karobonik in this issue). Put another way, their terms are enforceable. Therefore, *if* the developers followed the license terms, *then* they could license their code that included OSS.

We also know that OSS licenses can require downstream licensees to abide by the terms of the OSS licenses that issued to the developers, including sublicensing to other licensees. Our Gang of Five had no idea whether or not the developers complied with the OSS licenses because they did not receive any representations to that effect or *any* information as to the applicable OSS licenses.

The solution should be obvious: Someone hiring a developer should obtain a list of OSS software and their relevant licenses prior to signing the deal so that adequate due diligence can be performed. By now, the OSS licenses are common enough that a good licensing attorney will readily discern problems. Without that step, the Gang of Five—and, notably, each individual in that group—could have serious problems with their downstream licenses. In addition, the IP Agreement should also include representations from the developer as to compliance.

HOW WAS THE IP TRANSFERRED?

In our Gang of Five hypothetical we know that several of the developers were based in non-US jurisdictions. Three of them signed agreements that *looked* like work-for-hire but they lacked the "magic" language expected in US agreements for a valid WFH agreement. While that language is not *required* in the US, it is not clear that US law would apply to the IP Agreements for the non-US developers. How could our hearty entrepreneurs know whether or not that formulation was valid under the laws of the non-US jurisdictions? How could they know if the transfer would be valid under US law? Sure, litigation might solve the problem but, again, who wants it?

You Cannot Assign IP That You Do Not Have. Astute readers will tell me that the *Stanford v. Roche* decision appears in this column more often than any other case. The lessons from that case (especially the circuit and district court opinions) could be many but in this context one lesson is relevant: If an IP assignment is invalid, then assignment has not taken place.

The *Roche* decision reminds us that the language "Developer agrees to assign" does not constitute a valid assignment. Language to the effect of "Developer assigns" would be valid. In the Gang of Five situation above, one of the agreements from a non-US developer had the phrase "You own what I create under this agreement." Arguably, this language *could* be sufficient for a valid transfer, if the governing law of the non-US jurisdiction accepts such language. If anyone managed to get the issue into a US court, it may well be a valid transfer. But again, who wants the litigation headache?

Roche could also stand for the proposition that if a transfer is valid, then subsequent transfers might be suspect. Obviously, assignment must be exclusive for this proposition to hold true. Presumably, the sentence "You own what I create" would suffice as an exclusive transfer.

Where does that leave each developer and the Gang of Five in terms of IP ownership? One heavily negotiated section of every development agreement is the line drawn between what the developer creates for the client (whether under WFH or not) and what remains in the hands of the developer as tools to develop code for future clients. "You own what I create" might mean that the client (individuals in our Gang of Five and not the general partnership itself) owns everything, including tools developed while code was being created under that agreement but few developers are that naïve. It is better to clarify what the client owns (or is receiving through some sort of assignment or license grant); what is co-owned or cross-licensed; and what remains the exclusive property of the developer (what we often call the "Developer Toolkit").

THIS IS NOT *THROUGH THE LOOKING GLASS*

These sorts of "wrinkles" in the licensing nexus are neither absurd nor unique. Any technology lawyer knee-deep in the startup world will have stories of such problems, often arising in startup competitions or with groups of individuals who have been bitten by the startup bug and started development work without working out the legal issues that serve as the basis for successful startups.

The solutions may be obvious—incorporate soon, get all the IP into one entity, get rock-solid IP assignment and independent contractor agreements in place and, for the lawyer, perform thorough due diligence, whether of the OSS licenses or of the initial IP Agreements. But for the pre-funded startup with little or no money those solutions can be expensive. Worse, many such entrepreneurs do not believe that so much legal work should be done at the outset. How often have startup lawyers heard a potential client say "No way. My friend Mary didn't have to pay that much to her lawyers to get started." That lawyer can sigh, put on a pot of coffee and do the work. Only litigators and tax attorneys like general partnerships as clients or clients with messy IP.

The views expressed in this article are personal to the author and do not necessarily reflect the views of the author's firm, the State Bar of California, or any colleagues, organization, or client.

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