

TECHNOLOGY ENTREPRENEUR CENTER (TEC)

*International
Students,
Visas, and
Starting a
Company*

WORKSHOP

This workshop is for international students who want to start a company. An immigration attorney will present and answer questions.

Oct. 10 | 3:00-5:00pm | 119 MSEB

RSVP: go.illinois.edu/2018international



THINKCHICAGO ROADSHOW AT ILLINOIS

ThinkChicago comes to campus! Hear from Chicago's tech and business leaders, participate in the informal job fair, and see student startup demos.

Oct. 25 | 4:00-8:00pm

Siebel Center for Computer Science

RSVP on handshake.illinois.edu



and
COZAD
NEW VENTURE CHALLENGE 20th YEAR OF COZAD
Kickoff!

SOCIALFUSE *and* COZAD KICKOFF

Come to pitch your ideas, find teammates to scale your startup, or just sit back and check things out.

And, learn how Cozad can help you accelerate your idea with funding, mentoring, and more!

Nov. 6 | 5:00-7:00pm | BIF Commons

RSVP: go.illinois.edu/SocialFuse18

RSVP required to pitch, and requested for other attendees.

**ILEE
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UNIVERSITY OF ILLINOIS
AT URBANA-CHAMPAIGN

Startups: Incorporation, Funding, Contracts, and Intellectual Property

Professor Barich
Class 7



illinois.edu



Today

- Check Compass for Adjusted Exam 1 grade
 - Pick up Exam 1 score sheets
 - Scantrons are available
- Class 7 Notes



Summary -1

- A contract is an agreement between at least two parties that is enforced by a court.
- Parties must have the legal ability to enter into a contract
 - Any legal entity – for example, person, corporation, trust
 - Must not be incompetent – for example, infant, insane, prevented by law



Summary -2

- As a buyer, you want several liability (you are only responsible for your share)
- As a seller you want joint liability (every buyer is liable for the full amount of the contract) – co-signers are jointly liable
- Contracts may be express, implied, or quasi-contract/*quantum meruit*
- Contracts may be valid, unenforceable, voidable, or void



Summary -3

- Offer – A manifestation of willingness to enter into a bargain so made as to justify another in understanding that their assent to the bargain is invited and will “lock-in” the bargain
- Both the buyer and seller must have a “meeting of the minds”
- Objective reasonableness to determine whether an offer was made or accepted



Summary -4

- Offer may be terminated by:
 - Acceptance
 - Revocation/withdrawal
 - Rejection
 - Counteroffer – actually a rejection + new
 - Lapse of party – death, insanity
 - Passage of time
 - Material change in bargain
- Offer may not be withdrawn if offeror is paid to keep it open (Option)



Summary - 5

- A contract is not binding (voidable) when there is no “meeting of the minds”
 - Restatement – total agreement
 - UCC – substantial agreement
 - Mistake - unilateral or mutual
 - Misrepresentation - can be innocent mistake
 - Fraud - knowing falsity – can be hard to prove
- Or when the agreement is not voluntary
 - Duress – threat deprives you of free will
 - Undue Influence – status/power of other party deprives you of free will



Summary - 6

- Must have consideration (something of value) for enforceable contract
 - Must have value
 - Must be legal
 - Must be possible at time agreement is made
 - Must be present or future
- Keep your eye on the actual provisions of the deal, not the title of the document



Public Policy and Contracts

- The Court is the representative of society, so it's not going to enforce a contract with subject matter that is harmful to society
 - No enforcement of contracts for illegal actions, whether physical or economic
 - No enforcement of contracts that were fraudulently obtained
- What if it is neither illegal nor fraudulent, but just plain terrible? Someone wants to enforce a contract that offends morality?
 - Contrary to public policy – no enforcement



Public Policy Scrutiny

- Employment agreement with non-compete
 - “You agree not to accept employment with a competing business in Illinois for two years from your date of termination.”
 - States vary with how accepting they are,
 - California mostly bans them
 - Disfavored in Illinois – No longer allowed for \$13/hr or less
 - Courts don’t want to take away your right to earn a living, but will enforce non-compete when it protects a legitimate business interest – e.g. trade secrets
 - More likely to be enforceable if:
 - Limited in geographic scope
 - Limited in time
 - You are higher up the chain - you are a “big boy” - equity owner or officer



Statute of Frauds -1

- Summary - If it's a "big deal" get a record of it (such as paper or e-mail), or the court is not going to enforce it if there is a dispute
- When is it a big deal?
 - Anything involving land/real estate – unique!
 - Can't be performed in a year
 - Sale in excess of \$500
 - Involves marriage
 - Agreeing to take on someone else's debt
- Always a good idea to get agreement "fixed" in a tangible, permanent medium – e-mail counts!



Statute of Frauds - 2

- Origin – lots of liars in 1677!
 - Special concern when lie was about something big or difficult to disprove
 - Land/real estate – always a big deal, also concept of registry of deeds not yet invented
 - Can't be performed in a year – people forget and then start arguing
 - Sale in excess of \$500 – also a big deal
 - Involves marriage – pretty murky about what was actually “promised”
 - Agreeing to take on someone else's debt- Sometimes not clear what was being promised



SoF Exceptions

- Can still get enforcement if something that actually takes 2 years to get done if it was able to be done in one year
 - Ex – Building a house
- Can typically still recover in *quantum meruit* for your performance
- Merchant confirmation, if not disputed in 10 days
- Admission by other side – there's no possibility of fraud if both sides agree



Performance - 1

- Doing what you promised to do
- Fail to perform and you have “Breached”
 - Performance is based on “reasonable” standard unless explicitly stated otherwise in contract (may still be able to recover in *quantum meruit*)
 - Ex – “paint my picture to my satisfaction”?
 - “Substantial performance” – deviate from the original contract, but only by small amount
 - Ex – “1,000 12-inch rulers” (what if 12.01 in length?)
 - Ex – What if contract specifies they must be 12.000001?
 - Take away – spell out terms clearly, don’t just assume that the other side has the same understanding you do



Performance - 2

- May require tasks to be done by a specific date
 - “Time is of the essence”
 - Penalty for lateness, including damages and possibly termination of contract
 - Liquidated damages (more later)



Performance Excused - 1

- Destruction of an Essential Element
 - “Build house on my island”, island destroyed
- Unexpected hardship (maybe)
 - Could become “mistake”
 - Contract could be specific that one party bears the risk
- Death?
 - If personal services agreement, yes (impossible to perform)
 - Otherwise, goes to person’s estate



Performance Excused - 2

- Frustration of purpose
 - Contract no longer makes sense
 - Ex – Contract to host Illini NCAA Football Championship Party
- Prevention of performance by other side
- Waiver by other side
 - They “give you a pass”
 - Typically in a contract requiring many things, they waive on something small
 - “Deliver between 1-1:10pm”, show up at 1:15



Modification of Agreement -1

- “Blue-pencil” - If part of agreement is unenforceable, court may modify the remainder of agreement
 - Ex – part later made illegal by law
 - Ex – non-compete is too broad
- “Accord and satisfaction”
 - Agreement to accept substitute performance
 - Ex – Can’t give you the \$10, but I’ll walk dog instead



Modification of Agreement -2

- Novation – (completely) replace one party with another
 - “You know that deal I had with you to pay \$10 for your game? Instead Bob is going to pay you \$10 and get the game for himself.”
- Assignment – (partly replace) someone other than an original party now has a duty or receives benefit
 - “Pay Bob the \$10 that you owe me.”
 - Ex. - Sub-lease – may only partly release you



Legal Enforcement Prevention

- If a company enters bankruptcy, the Court can modify or terminate a contract
 - Debt may also be discharged
- Statute of limitations
 - They know you breached, but don't sue for 10 years
 - Governed by state law
- Statute of Repose
 - Even if not discovered, you can't sue after X years



Remedies

- What you get when they breach!
- Damages
 - Court orders them to pay you money
- Injunctions
 - Court orders them to do/not do something
- Specific performance
 - Court orders them to go through with the deal
 - Typically only for “unique” consideration, like real estate
 - Damages are preferred by the court



Damages - 1

- Compensatory Damages
 - Option 1 – put you in the position you would have been in had they not breached
 - Option 2 – compensate you for actual losses
 - Depending on specific deal, may prefer one or the other (high margin=1, high capital=2)
- Special/Consequential Damages
 - Their failure cost you more than just contract
 - Ex - \$1K contract to install water purifier was breached and causes you to be in breach of \$1M contract to deliver facility
 - NOTE: Damages are NOT limited to the amount of the contract (absent other agreement)



Damages - 2

- Punitive Damages
 - “They are evil and should be punished”
 - Often pled, but rarely awarded for contracts. Not allowed in some states.
 - May be much greater or lesser than actual D
 - Dr. buys “new” BMW, but car was damaged and repainted by BMW. Alabama jury gives \$4K in comp and \$4M in punitive. Later reduced by US SC.
- Liquidated Damages
 - Contract provision spells out how much the damages would be in situations where it would be difficult to prove
 - Ex - “For each day late, X shall pay \$10,000”



Duty To Mitigate

- Once you become aware of damage happening to you, you must take reasonable steps to minimize your damages
 - Or else the court may not award you full damages and may only award you the portion that you could not have prevented
 - Ex – Contractor has responsibility to turn off water for the weekend. Owner visits site on weekend and notes that water is flooding site. Assuming that the Owner is able to do so, the Owner must turn off water to stop further damage to the site – or at least take reasonable steps to stop the damage



Enforcement

- Courts can enforce remedies in many fashions, some are:
- Writ of execution (can have other names)
 - Authorize sheriff to seize and sell off property
- Garnishment
 - Third party (usually a bank) holding their assets must give them directly to you
- Attachment/Lien – the property can't be sold without paying Lien
- Contempt of Court – jail them



Ownership

- When ownership of goods passes from one party to another, the party that has legal ownership is said to have “title”
- The party that has title typically bears the risk for loss
- As a buyer – take title as late as possible
 - Or never! Let the goods pass directly from manufacturer to consumer without the retailer taking title
- As a seller – transfer title as soon as possible to reduce risk



“Tendering” Goods

- The UCC requires that a seller tender goods to a buyer by placing conforming goods at the buyer’s disposal
- Buyer typically has a right to inspect the goods before accepting – if OK, then they must pay!
- Title typically changes only when goods are accepted by buyer
- If goods are not conforming, buyer can:
 - Reject entire shipment
 - Accept some conforming goods, but deny remaining
 - Accept all goods, but sue for cost of non-conformance



Warranties

- A warranty is a promise – a guarantee that is legally enforceable against the party making it
- Several types of warranty
 - Implied Warranty
 - Express Warranty
 - Extended Warranty



Implied Warranties

- (UCC) Implied warranties arise for all product sales unless they are specifically disclaimed
 - Warranty of Title
 - “I own the goods and can pass title free and clear”
 - Merchantability
 - “You can re-sell these”
 - Goods are of fair quality, fit for ordinary purposes, substantially uniform in quality, packaged and labeled, and conform to their labels
 - Fitness for a particular purpose
 - If I tell you what I want, you have to sell me the right product



Express Warranties

- Sometimes called “Representations and Warranties”
 - Things that the one party (typically buyer) can’t easily identify, but wants to be essential to the agreement
 - Often associated with specific consequences (such as liquidated damages) for failure
 - “Home Builder (HB) represents and warrants that all lumber used in the project shall be sourced from a certified renewable source. If HB fails to do so for even a single board, HB shall be obligated to pay Buyer the sum of \$100,000 as damages for breach.”
 - “Little old lady” – oral puffery vs. binding representation – write it into the contract as a representation and warranty



Extended Warranty

- Offered by a seller to give buyer more confidence in the goods to induce purchase by buyer
- Typically not required by law, but often given in practice
- Becomes binding on the seller for the future once you buy the product
- Contract only binding while party is alive, so if seller goes out of business, warranty goes with it



Disclaimer

- Most warranties can be disclaimed in most situations
- Most common disclaimer – sold “as is”
 - No implied or express warranties
 - It is up to you to discover anything that may be wrong, but they still can’t fraudulently conceal
- Strengthen disclaimer by specifically reciting in bold letters the warranties that are being disclaimed
- Sometimes court will hold disclaimer as against public policy



Indemnification Clauses -1

- Similar to Extended Warranty, you want encourage a prospective buyer to buy your goods or services by agreeing to stand behind them in case of trouble

“Seller agrees to indemnify and defend Buyer of and from any and all claims, demands, losses, causes of action, liability, damage, lawsuits, and judgments, including attorneys' fees and costs, to the extent caused by or arising out of Seller's sale of goods to Buyer.”

- Insisted on by most retailers
 - Example: Major retailer could be sued for patent infringement based on a product it sells, so it will not accept the product from the manufacturer without an indemnification clause from the manufacturer



Indemnification Clauses -2

- “Indemnify” – if Buyer has to pay out money, Seller will pay them the same amount they had to pay out
- “Defend” – If the Buyer is sued, Seller will have to pay the attorneys’ fees
 - Absent other agreement, Seller picks attorney
- But! If the Seller is bankrupt or goes out of business, then it may not be possible to recover under the indemnity
- Can add \$ limitations, but may not be acceptable to B
 - “In no event shall the maximum liability hereunder exceed the sum of \$ X”
 - "In no event shall the maximum liability hereunder exceed the amount actually paid to Seller under this contract."



Confidentiality/NDA Agreements - 1

- You may be asked to sign or want others to sign a Confidentiality or Non-Disclosure Agreement
 - Often arise in practice, for example when you want to show a potential investor IP or financial info
 - Many VCs will refuse to sign them
 - This is a legitimate concern because they are often working with several companies in the same space that may have independently developed the same thing and the VC does not want to get caught in the middle



Confidentiality/NDA Agreements - 2

- When you are asked to sign
 - Make sure that the agreement is not overly restrictive
 - Agreements vary widely- there is no “standard” and you can typically negotiate the language
 - Make sure there is an agreement as to what constitutes confidential matter and you agree with it
 - You want “outs” for info in the public domain
 - Make sure your current work is not implicated
 - Be aware of use restrictions
 - Be aware of “Derivative” language
 - Consider whether Mutual NDA is appropriate



Confidentiality/NDA Agreements - 3

- When asking someone else to sign:
 - Recognize that you can't make someone forget
 - And they may become your competitor
 - Recognize that enforcement may be difficult
 - Difficult to tell when info has been used
 - Clauses may be unclear
 - Definition of Confidential Info and Derivative may be unclear
 - Litigation may be expensive
 - Clearer the Agreement, and more narrowly tailored toward a clear business interest, the more likely the enforcement
 - Only give information that they “need to know”
 - May only have to demonstrate product, not disclose exactly how it operates, was built, and your sourcing companies
- Review Simple and Complex Confidentiality Agreements



Non-Compete Agreements - 1

- A Non-Compete may be an agreement by itself or clauses included in a differently titled agreement
 - Title of the Agreement may be misleading
 - May be titled NDA, but really be Non-Compete
- Different focus in different situations
 - Regular employee
 - Salesman
 - IP Generator
 - Potential development partner



Non-Compete Agreements - 2

- Enforcement vs. Words
 - Courts will not enforce employee non-competes that are more exclusive than required to serve a reasonable business purpose
 - Reasonable terms for:
 - Time
 - Location
 - Identification of Competitors
 - Exclusion from fields of business or certain roles



Non-Compete Agreements - 3

- Some clauses you might see
 - No solicitation of/selling to current or former clients
 - Or you may have to pay for clients you take
 - No solicitation/employing current or former employees
 - Employer ownership of IP
 - Non-disclosure
 - Confidentiality/Non-disparagement
 - Exclusion from fields of business or certain  roles

Non-Compete Agreements - 4

- Why you legitimately might want a non-compete
 - As a startup, you don't want your people to:
 - Start their own competing business
 - Jump ship to a competitor
 - Get hired away by a large company
 - As mentioned above, any non-compete should be narrowly tailored to protect a legitimate business interest or it may not be enforceable
 - Recall that courts are not required to blue pencil
 - Limitations are generally legitimate on those with access to trade secrets



NDA and Non-Competes

- Review of NDAs and Non-Competes
 - Simple Confidentiality (NDA)
 - Complex Confidentiality (NDA)
 - Clear Multi-Facet Agreement
 - NDA, Non-Compete, Non-Solicitation
 - Buried Non-Compete
 - NDA, Invention Ownership, Non-Compete, Non-Solicitation
- Jimmy John's Agreement



Questions?

See you next week!

