

Legal Q & A: Helpful Advice for Startups

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How We Will Spend our Next Hour

- I am here to answer your questions about your business
- The following slides offer some topics that many start-ups confront as they grow
- I specialize in intellectual property for technology companies; that's why there are a lot of slides about i.p.
- **THE FLOOR IS YOURS! YOU SET THE AGENDA!**
What follows on the next slides are common legal
- issues entrepreneurs face when starting a business

Organizing your Business

- How to organize your business
 - Corporation
 - Limited liability company
 - Sole proprietor
 - Where to organize (Delaware, Massachusetts, elsewhere?)
- Equity issues for start-ups
 - Stock
 - Options
 - Restricted stock
 - Preferred stock
 - Do security regulations apply to my business?

Funding Your Business

- Funding the start-up
 - Self funding
 - Friends & family
 - Angel investment
 - Venture capitalists
 - Banks
- What happens when you take on investors?
- Are investors worth the hassle?

Getting People to Work for You

- Employees vs. contractors:
 - What's the difference
 - Who cares?
 - Gig workers – who are they?
- What about non-competes?
- If I am an employee of a company, does that mean I can't be sued?
- Is it really hard to fire an employee? What if the employee owns stock?

Exiting the Business

- Exit strategies for start-ups
 - Sale of stock
 - Sale of assets
 - What happens to your employees
 - What happens to your customers
- Partnerships

Taxes

- do I have to pay taxes
yes, if you make money
- does the form of my company affect the
taxes I pay
 - not really, but a lot of people will try to get
you to think otherwise

Lawsuits

- Is there anything I can do so I don't get sued
es, don't get out of bed
- Very funny, how about answering the question
- Like taxes, liability is a part of being a successful
business
- There is nothing you can do to prevent someone
from suing you or your company
- However you can take steps to minimize liability
and control litigation via contract

Legal Zoom and the Like

- Stay away from packages like Legal Zoom
- If you rely on them, you are being penny wise (maybe) and pound foolish (for sure)
- Ask me about Legal Zoom horror stories re:
 - corporations
 - llcs

Intellectual Property Primer for the Start-Up Company

Table of Contents: IP Primer for Start-Ups

Intellectual Property (IP):

- What is it?
 - How does a company acquire it?
 - How does a company keep it?
 - How does a company profit from it?
- Corporate Events with IP ripples
- IP Issues for:
 - E-Commerce Businesses
 - Consulting Companies
 - Software Companies

IP:

What is It?

- Traditional legal perspective:
Property rights recognized and protected by the law.
Four basic building blocks:
 - Copyright
 - Trademark
 - Trade Secret
 - Patent
- Business perspective:
 - Any intangible asset of the company which provides some competitive advantage, e.g. know-how, methodologies, proprietary information

Copyright Rights

- Copyright protects the “expression” of an idea; i.e. its superficial representation in a medium
- Copyright protection attaches to all suitable creations without any initiative of the creator; lasts very long
- Copyright permits author to: reproduce, adapt, display, perform and distribute work
- Work-for-hire doctrine
- Internet issues:
 - Digital Millennium Copyright Act (DMCA), American Home Recording Act (AHRA)
 - Fair use, linking
 - Communications Decency Act

Trademark Rights

- Trademark a/k/a service mark is protection granted by statute to particular words, phrases or designs
- Trademark law is designed to protect the consumer from confusion among similar marks
- Trademark protection lasts while mark is used
- Trademarks apply to the use of certain marks in certain contexts, thus one mark can be trademarked multiple times for different uses. This creates:
- Trademark disputes in the realm of the internet
 - Trademark names vs. domain names
 - The whole naming issue for companies

Patent Rights

- Protect the underlying processes behind inventions
- Compare to copyright which protects “expressions” not processes
- Patents are granted by the government’s Patent and Trademark Office (PTO)
- Inventor discloses how an invention works in exchange for being granted a monopoly to exploit patent for 20 years
- Patent requirements: reduction to practice, novelty, and advancement of prior art
- Software patents - hot area after State Street v. Signature
- Expensive, slow process to obtain a patent; may be expensive to defend

Trade Secret Protection

- A trade secret is a company's proprietary information which gives it a competitive advantage and which the company protects
- Trade secrets are determined with respect to its content and the conduct of the company to protect it
- The scope of trade secrets can be large, e.g. employee know-how
- No regulatory filing to "register" a trade secret
- If your company has a competitive advantage that is not protectible under copyright, trademark or patent law, treat it like a trade secret

Other Intangible Assets - Corporate Smarts

- A company may have valuable IP even if its intellectual assets don't fit within the traditional building blocks
- Most company competitive assets are amalgams of the building blocks
- This competitive advantage can be protected, shared and profited from through licensing agreements and partnership agreements with your business customers

IP: How to Get It

- In most circumstances, IP is not an end in itself, but the by-product of a company's value-added activities
- Consult with an attorney after you have developed your competitive assets
- Exception to this rule where process can dictate results:
 - Patent applications
 - Trade secret information
 - Employment agreements
- Develop strategy to perfect IP rights: consider cost, benefit, time & effort

IP: How to Keep It

- You can protect your IP legally, via:
 - Well-drafted license and partnering agreements
 - Well-thought employment agreements
- Equally important, protect your IP via good corporate hygiene
 - Computer security
 - Physical security
 - Good human resource practices

License Agreements

- License - where one party that owns IP (licensor) permits another party to use the IP (licensor) under certain conditions.
- License parameters:
 - Scope of use
 - Scope of disclosure
 - Ownership of intellectual property
 - Terms of payment
 - Allocation of risk
 - Limitation of liability

Partnership (Development) Agreement

- In all development agreements a balance must be struck between trust and sharing
 - Can we dance and not step on each other's toes?
- However, you can protect assets through legal means:
 - define who contributes to the venture, how jointly developed assets will be owned, how property will be divided upon dissolution
 - try to avoid “joint ownership” arrangements
- Parameters in a joint venture:
 - Who owns what at the start; who owns what at the end
 - Is ownership dependent on performance?

Events with IP Ramifications

- Corporate start-up
 - Choice of name
 - Choice of domain name
- Hiring practices
- Termination procedures
- Employee policy manual
- Joint ventures
- Over-reaching non-disclosure agreements
- Receiving outside investors
- Going public

Employment Practices

- Employment agreements which address ownership of IP with: founders, subsequent employees, contractors
- Letters of hire which set forth company's IP policies
- Termination procedures which reinforce companies IP policies (e.g. reminders about trade secrets, confidentiality, etc.)
- Employee confidentiality agreements; assignment agreements
- Where trade secrets are involved, appropriate measures of corporate protection

IP Issues for: E-Commerce Business

- Ownership of domain name; relationship with ISP
- Ownership and use of customer data
- Ownership and relationship with website developers
- Linking to other sites; framing
- Metatags
- Content of website
- Patentable business processes?

IP Issues for: Consulting Companies

- Ownership of work-product; alternatives to work-for-hire doctrine
- Reusability of work-product
- Reusability of know-how and competitive data acquired on client assignment
- Reproduction of third-party information in presentations
- Restrictive scope of confidentiality agreements
- Restrictive scope of non-competition agreements

IP Issues for: Software Companies

- Maintaining competitive advantage through reasonable employment policies (confidentiality, non-compete where appropriate)
- Forming appropriate alliances without giving away company's crown jewels
- Patentability of software?
- Checking for infringement of third-party IP
- Open software licenses - GNU Copyleft, Linux

About Peter Kelman, Esq.

- 30 year's experience representing technology companies and entrepreneurs
- Assist clients in:
 - Corporate transactions
 - Litigation
- Published in: *Boston Business Journal, Mass High Tech, Mass. Lawyer's Weekly, American Bar Association*
- Author of:
 - [Social Media Companies under the Supreme Court Microscope](#)
 - [Sarah Silverman, you are suing a Chatbot??](#)
 - [The Rise of Natural Stupidity](#)
 - [How Congress Created Job Security for Rudolph the Reindeer](#)

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