Small Business & Entrepreneurship Seminar Series

July 10, 2013
Session 2
Agenda

1. Intellectual Property
2. Corporate Governance
Disclaimer

- Neither the faculty/staff nor students of the Community Law and Business Clinic, nor the Wake Forest University School of Law, represent you in any capacity legal or otherwise. We are not your attorneys.

- Information in this presentation is not to be construed as legal advice, and does not take the place of a competent attorney.

- If you have legal issues, please retain and consult a licensed attorney.
What is this session designed to do?

- Provide a general picture of intellectual property, corporate governance and employment law
- Allow you to spot issues requiring legal or other professional services
Any product of human intellect that the law protects others from using without authorization

Includes:
- Patents
- Trademarks
- Copyrights
- Trade secrets

The US Patent and Trade Office (USPTO) deals with all of the above except trade secrets (usually handled at a state level)
- S’s Famous Strawberry Jam, Inc.
- What IP might S possess?
  - Recipes
  - Innovative (and improved) canning process and canning machine
  - Advertisements
    - Print
    - Television
    - Radio
  - Logo/trademark/trade dress
  - Website
Trademarks™ - word, phrase, symbol or design or combination that identifies and distinguishes the source of goods of one party from those of others

Service marks - same as TM but identifies and distinguishes source of service rather than goods

Using marks
- Can use™ at any time
- Can use (SM) at any time
- Can use ® once federally registered

Examples of trademarks
- Logos
- Catchphrases
- Words
Strong and Weak Trademarks

- **Strong**
  - Fanciful and arbitrary
  - Suggestive

- **Weak**
  - Descriptive
  - Generic

**Sidebar: Generification**
- A trademark that becomes a generic term for a product due to wide usage and lax protection from TM holder
  - Aspirin
  - Heroin
  - Escalator
  - Kleenex (?)
**Why Register Trademarks**

- A legal presumption of ownership of the mark
- Public notice of your claim of ownership of the mark;
- Listing in the USPTO’s online databases;
- The ability to record the U.S. registration with the U.S. Customs and Border Protection Service to prevent importation of infringing foreign goods;
- The right to use the federal registration symbol “®”;
- The ability to bring an action concerning the mark in federal court; and
- The use of the U.S. registration as a basis to obtain registration in foreign countries.
Definition of ©
- Original works of authorship
  - Original = independently created and possess some degree of creativity
  - Fixed in a tangible means of expression

Includes:
- Literary works
- Musical works
- Dramatic works
- Pantomimes and choreographic works
- Pictorial, graphic, sculptural works
- Motion pictures
- Sound recordings
- Architectural works
Copyrights, cont.

- Does NOT protect:
  - Works that have not been fixed in tangible form
  - Titles, names, short phrases and slogans, symbols, etc.
  - Ideas, procedures, methods etc.
  - Works consisting of entirely information that is common property
Copyrights, cont.

- Securing copyright protection
  - No publication or registration is needed to secure a copyright
  - Copyright protection is secured when the work is created
    - Created = fixed in a copy for the first time
  - May bear a notice of copyright if published (otherwise must note unpublished)
    - Publication = distribution of copies to public by sale or other transfer of ownership

- Use © (even though you don’t have to)
- Created and enforced on state level, but standardized law created via Uniform Trade Secrets Act

- Trade secret = information that has economic value from *not being generally known* and is the subject of *efforts that are reasonable under the circumstances to maintain secrecy*

- Info that can be protected includes:
  - Formula
  - Pattern
  - Compilation
  - Program
  - Device
  - Method
  - Technique
  - Process
Trade Secrets, cont.

- Losing trade secret protection
  - Public access
  - Disclosure to others – this can be to an employee or another company who will use the trade secret, BUT if recipient agrees to keep confidential then trade secret retains its protections
  - Reverse engineer
Patents

- Written description of an invention filed with the U.S. Patent and Trademark Office
  - NOT just an improvement on a current invention – must show creativity

- ONLY the inventor can apply

- Must file FIRST

- Types of patents
  - Utility patents (20 yrs.)
    - Ex. new process, machine etc.
  - Design patents (new design for article of manufacture) (14 yrs.)
    - Ex. new design for a piece of furniture
  - Plant patents (20 yrs.)
    - Ex. new variety of a soy bean
Trade Secrets v. Patents

- Disclosure
- TS do not require kind of novelty or invention which is required for patentability (i.e. can simply make an improvement to an existing machine)
- Patent monopoly is reward to inventor, TS merely protects against breach of faith
- TS cannot stop someone who independently came up with the same info while patent holder can
- If someone reinvents something and gets patent can stop an earlier inventor with only a TS from using
Patents, cont.

- Disclaimer
  - The CLBC does not do patent law work
  - Patents require the services of an attorney who is a member of the Patent Bar
Why protect IP?

- Capture value
- Increase your ability to license
- Increase ability to access funding
What protections should S seek for the company's intellectual property?
10 minute break
Governance – “system by which corporations are directed and controlled.”

Rights, responsibilities and limits of:
- Board of directors
- Officers/managers
- Shareholders
- Auditors, accountants, attorneys, etc.
- Other stakeholders
Who has boards of directors?
- Nonprofits
- Corporations

Duties (usu. defined by bylaws):
- Hire and advise officer(s)
- Oversee strategy and direction of the organization
- Oversee proper functioning
- Overseeing compliance efforts
- Delegate to committees (if permitted)
Board of Directors, cont.

- How they are selected:
  - Corporations: Elected by shareholders
  - Nonprofits: Selected by members or board

- Who does not have boards:
  - Sole proprietorships
  - LLCs (board of managers if manager-managed)
  - Partnerships
The by-laws provide the rules for the board’s operation.

- By-laws may have been revised or amended over time.

- Resolutions: allow for corporate power to be exercised.

- Requirements:
  - Conflict of Interest Policy (IRS)
    - Duty to disclose
    - Duty not to vote on self-interested matters
  - Annual statement from each board member
  - Document retention policy (Sarbanes Oxley)
    - Crime to knowingly destroy documents and records
    - Policy defines how long records will be retained
  - Whistleblower (Sarbanes Oxley)
Sidebar: Fiduciary Duties

- Directors of corporations and nonprofits owe certain legal duties to their organizations

- These duties are defined by:
  - Case law
  - Statute
  - Bylaws of the organization
Sidebar: Fiduciary Duties, cont.

- **Duty of care**
  - Baseline level of attention; “duty to be informed.”
  - Be informed about an issue before making a business decision relating to it

- **Duty of loyalty**
  - Act solely in the best interests of the Corporation
  - Retain the confidentiality of confidential information
  - Avoid conflicts of interest

- **Duty of obedience**
  - Act in furtherance of the business organization's goals and mission
  - Prohibited from committing acts that are outside the scope of the business organization's powers, i.e., *ultra vires acts*
  - Comply with all applicable state and federal laws
Sidebar: Fiduciary Duties, cont.

- Example of questionable Director actions at S’s Famous Strawberry Jam, Inc.:
  - Director signs off on quarterly audit without looking at the figures or understanding basic accounting principles
    - Breach of duty of care
  - Director hears about a strawberry farm deal that would be perfect for the corporation to invest in, but instead invests in it herself
    - Breach of duty of loyalty
  - Director votes for a strategic apricot jam initiative that ends up losing the corporation over $1 billion in revenue in the next 2 fiscal years
    - No breach - business judgment rule applies
  - Director issues millions of shares of stock during a takeover, despite the bylaws requiring a unanimous shareholder vote to do so
    - Breach of duty of obedience
Officers/Managers

- Duties:
  - Oversee day-to-day operations of company
  - Other delegable duties as prescribed by the Board or set forth in the bylaws
What about LLCs?

- LLCs are organized around members, not shareholders
- Can be member-managed or manager-managed
  - LLC can have a “Board of Managers” or advisors, or nothing
- LLCs are mostly run according to an Operating Agreement, so there is a lot of operational flexibility
- Do managers in an LLC have the same fiduciary duties as directors in a corporation or nonprofit?
Governance Best Practices

- Attend board meetings
- Implement a staggered board for consistency.
- Gather information (research, meet with attorney, accountant, etc.)
- Keep in mind that all decisions must be in the corporation’s best interest.
- Take note of spending and fiscal matters – especially if your organization is publicly-held
- Appoint special committees in appropriate situations.
- Keep an eye on the CEO and related officer positions. Ensure that they are acting in the best interests of the company.
Conclusion

- Takeaways
  - Intellectual property should be properly protected to maximize value capture and protect your work
  - Get your organization’s governance in order so you can focus on the business
  - More in-depth advice and information can and should be obtained from a licensed professional