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# Dividends

Business Information for Clients and Friends of Shumaker Loop & Kendrick, LLP

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## Have Your IP Dollars Been Well Spent?

By: Jack Santaniello

Does your trademark have what it takes to obtain the full protection of the laws of the United States? As business owners, we would like to think that the time, effort and expense invested in creating, using and promoting the names and/or symbols which represent our businesses have been well worth it. Here is an abbreviated guide as to how the United States Patent and Trademark Office ("USPTO") evaluates your branding choice in the context of granting or denying a federal trademark registration.

A trademark includes any word, name, symbol, or device, or any combination, used, or intended to be used, in commerce to identify and distinguish the goods of one manufacturer or seller from goods manufactured or sold by others, and to indicate the source of the goods. A service mark is any word, name, symbol, device, or any combination, used, or intended to be used, in commerce, to identify and distinguish the services of one provider from services provided by others, and to indicate the source of the services. In comparison, a patent for an invention is the grant of a property right to the inventor, issued by the USPTO. The right conferred by the patent grant is "the right to exclude others from making, using, offering for sale, or selling" the invention in the United States or "importing" the invention into the United States. What is granted is not the right to make, use, offer for sale, sell or import, but the right to exclude others from making, using, offering for sale, selling or importing the invention.

**Intellectual Property**

In comparison, a Copyright is a form of protection grounded in the U.S. Constitution and granted by law for original works of authorship fixed in a tangible medium of expression. It covers both published and unpublished works. A Copyright protects original works of authorship including literary, dramatic, musical, and artistic works, such as poetry, novels, movies, songs, computer software, and architecture. It does not protect facts, ideas, systems, or methods of operation, although it may protect the way these things are expressed.

The key in creating a valuable asset for your business in the form of a trademark is to choose a mark that is in a category referred to as a "strong" mark category (or one that is close to it). Categories of marks range from "generic" (which are referred to as weak marks) to "arbitrary / fanciful" (which are referred to as strong marks).

**Generic Marks** are those are marks which are merely the common, household name for the product or service involved. These marks are not eligible for protection under trademark law. In some cases, marks which do not start out as generic become so after a period of time, e.g. aspirin or escalator. Generic marks are the weakest category of marks.

**Descriptive Marks** are those marks that, although they are not the common name for the product or service, give an immediate connotation as to the function or nature of the product or service. However, unlike generic marks, descriptive marks can become eligible for trademark protection if they acquire "secondary meaning." Secondary meaning describes the situation in which a descriptive phrase becomes linked to a particular source for a product or service in the minds of the consuming public, e.g. Toys-R-Us for a toy store.

**Suggestive Marks** are those that are one step away from a descriptive mark. In order to link the mark to its function, one must be somewhat imaginative. A suggestive mark will be protected by trademark law, even without secondary meaning, e.g. Microsoft for microcomputer software. The challenge is that the line between suggestive and descriptive is not clear cut and is subject to the evaluation of the USPTO examiner reviewing the trademark application.

**Arbitrary / Fanciful Marks** are marks which comprise the strongest category of trademarks as there is little or no relation to the function or nature of the product or service. Kodak for camera film or Apple for computers are good examples of a fanciful marks.

Once the mark is selected, the next step is to make sure that others are not using the same or similar mark. One must examine data regarding existing trademarks and this is most commonly accomplished by searching the trademark database of the USPTO. However, the USPTO database only includes marks which have been federally registered or have been submitted for federal registration. This database does not include state registered marks, trade names (also referred to as a "d/b/a"), common law trademarks, business names, registered corporate names in various states or domain names to list a few. There are professional search companies which offer more comprehensive searches of these items.

Keep in mind, however, that federal registration is not required to establish rights in a trademark. Common law (non-statutory) rights arise in favor of the trademark owner from actual use of a mark in the geographical area of use. But common law rights can also be an obstacle to someone seeking and achieving federal registration. The common law right holder may be able to trump a federal registration which is granted after the common law trademark user's use in the geographical area of the actual use to the exclusion of the federal registration holder. Nonetheless, there are many benefits of federal trademark registration. These include: constructive notice nation-wide of the trademark owner's claim; evidence of ownership of the trademark; jurisdiction of federal courts may be invoked; registration can be used as a basis for obtaining registration in foreign countries; and registration may be filed with U.S. Customs Service to prevent importation of infringing foreign goods.

In the case where a federal application is submitted to the USPTO, they will conduct a search of registrations and applications in its database for marks which create a "likelihood of confusion". The principal factors considered by the USPTO in determining whether there would be a likelihood of confusion are the similarity of the marks and the commercial relationship between the goods and/or services listed in the application. To find a likelihood of confusion, the marks do not have to be identical, and the goods and/or services do not have to be the same. It may be enough that the marks are similar and the goods and/or services related.

When selecting a name, mark or brand for your products or services, keep in mind that while federal law will grant to you what amounts to a monopoly on the use of certain word, non-word or combined marks, it will not grant such a monopoly to words, designs or combinations of words and designs which are too generic or descriptive of your goods or services. Be sure to choose carefully.

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# Letters of Intent

By: Julio C. Esquivel

Most merger and acquisition deals (M&A) start with a letter of intent, with one party (usually the buyer) submitting its proposal to the other, to lay down the foundation of the transaction. Letters of intent are generally short and informal, and, accordingly, often are drafted and negotiated directly by the principals to the transaction. However, parties would be well-served to consult their lawyers prior to executing the letter. All too often, clients give up significant negotiating leverage by signing a letter of intent without running it by their attorney. These miscalculations can often complicate and prolong negotiations and sometimes lead to the failure of the transaction or even to litigation.

The letter of intent memorializes the preliminary agreement of the principals and in that fashion allows them to take their negotiations to the next level. It does so by not only summarizing the parameters of the proposed transaction, such as price and closing conditions, but also by setting forth certain safeguards that promote continued dialogue such as nondisclosure and no-shop provisions. Additionally, letters of intent may allow the parties to begin the process of obtaining governmental and other third-party approvals necessary to close the transaction.

**Corporate Law**

Often, having reached a handshake agreement, the parties want to maintain the momentum of their negotiations, so they rush to sign the letter of intent. This is especially true when one of the parties is eager to publicly announce the agreement. But even though the letter may be meant to be preliminary, the words in that letter can have a profound impact on the subsequent negotiations, providing one party with a psychological, if not legal, advantage over the other.

For example, sellers often sign letters of intent that contemplate an asset sale without fully appreciating the tax implications of such a structure. Later, having conceded that point in the letter of intent, it becomes very difficult to convince the buyer to restructure the deal.

Letters of intent can be drafted to be either binding or nonbinding, but most commonly are a combination of the two, with some provisions being purely a reflection of the parties' preliminary intentions and others having the weight of contract. It is critical that the letter specify which provisions are intended to be binding and which are not; otherwise, the parties may find themselves litigating this issue.

Typical binding provisions include confidentiality and other limitations on a party's ability to publicly disclose the negotiations, as well as the standstill or no-shop provision, which is a provision that limits the seller's ability to solicit or accept competing offers for a certain period of time. This allows the buyer time to complete its due diligence and to negotiate the definitive documentation without fear that the seller may simultaneously be negotiating with others.

The purchase price in the letter of intent is typically nonbinding. Yet, for the reasons already mentioned, and because it is usually the key term to the deal, particular attention should be paid when drafting this provision.

In an all-cash deal, drafting the purchase price should be straightforward. However, when the circumstances merit it — for example, when the purchase price is complicated by the existence of an earnout, holdback or equity kicker — the parties should carefully consider how much additional detail should be included so as to avoid later disputes. Should the letter include the strike price, vesting schedule and termination date for any warrants to be paid at closing? Additionally, should the parties specify whether the earnout will be calculated before or after interest and taxes or based on generally accepted accounting principles (GAAP)? These are significant issues that may need to be addressed in the letter of intent and can ensure that the letter meets your objectives.

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