

AN IP, IT, E-COMMERCE AND TECH VENTURES CHECKLIST FOR BUSINESS MANAGERS

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Every business is faced with continually delivering products and services in faster, better and cheaper ways. Technology, particularly information technology, often is the key to doing so. Meanwhile, an increasing portion of the value of any business is more and more likely to be its intangible assets, such as brands, trade secrets, know-how, patents, websites, networks, information systems and, even, customer relationships. Similarly, technology now drives many major sales, purchases, alliances, ventures and investments. And the growing use of email and the Internet in the workplace presents unique employment issues. Every business manager should understand the basic legal issues encountered as a result of these long-term trends. Accordingly, the checklist and discussion below provide a quick assessment and overview about the most common intellectual property, information technology, electronic commerce and venture and alliance legal issues for businesses.

INTELLECTUAL PROPERTY

Has your business instituted a trade secret and proprietary information protection program?

A “trade secret” generally is market, product, operating, financial, customer or other information (including, data and technology) which derives economic value from being kept secret and is the subject of reasonable efforts to maintain secrecy. Almost every business has some sort of trade secret, which periodically must be disclosed to or used by employees, supplier, customers, contractors or others. In addition, these parties may from time to time generate valuable ideas, inventions, discoveries, creative works and other work-product in the course of their relationship with a business, as to which the business may want to control.

Consequently, every business should implement a program to protect its rights with respect to trade secrets and proprietary matters. For example, every business typically should: (1) limit disclosures of trade secrets and other confidential information only to parties who have a “need to know” such information; (2) require appropriate parties to sign written confidentiality or non-disclosure agreements; (3) require appropriate parties to sign non-competition and non-solicitation agreements; and (4) require appropriate parties to assign rights to the business with respect to inventions and work-product arising in the course of their relationship with the business.

Does your business have any brands, logos, packaging or designs that are used to distinguish its goods and services? Does it plan to develop such items?

A “trademark” is any word, name, symbol or device that is used in commerce to identify the goods of a manufacturer or seller from those of others, and to indicate the source of the goods. A “service mark” similarly is used to identify the services of one provider from those of others. In addition to words or text, such marks may include colors, sounds, fragrances and non-functional designs or configurations. The owner of such marks has the indefinite right, subject to certain limitations, to prevent others from using confusingly similar marks. However, such rights may be diminished or lost if they are not enforced. Although owners of marks may have certain rights pursuant to the common law, marks may be registered with the U.S. Patent and Trademark Office (“PTO”) and doing so provides additional benefits.

If your business has trademarks or service marks, then it should respond forcefully against any third parties who improperly use such marks or use confusingly similar marks. Also, it should consider the benefits of seeking registration of such marks with the PTO. For example, registration constitutes strong evidence that such marks: (1) are not confusingly similar with other marks; (2) have a secondary or distinctive meaning with respect to the relevant goods or services; (3) are owned by the registrant; and (4) may be used only by the registrant in connection with the goods or services. In addition, registration may provide the basis for recovering profits, damages, punitive damages and costs in an infringement action in a federal court.

If your business plans to develop and use new marks, then - before making any major investments in promoting and using such marks - it should arrange for a search and evaluation of the availability of such marks for the intended purposes.

Can your business obtain a patent for any idea, invention or discovery? Is your business planning to develop a new product or use a new process which may have been patented by another party?

A “patent” is a grant to its holder of the exclusive right to make, sell or use an invention. The PTO examines patent applications and grants a patent if, among other things, an invention is novel, useful and non-obvious (in the view of a person of ordinary skill in the relevant art). A utility patent is the most common type, of which there are four categories: processes, machines, manufactures and compositions. The term of a utility patent is 20 years from the date of application. In addition, a design patent may be obtained for a new and non-obvious ornamental design for an article of manufacture and such a patent has a term of 14 years from its issuance.

If your business plans to develop a new product or use a new process, then - before making any major investments - it should arrange for an evaluation as to whether such activities would infringe upon the patent rights of others.

Has your business registered Internet domain names which may be important to your business?

An Internet “domain name” is the electronic address to identify a computer host site, home page or web page (such as <http://www.jagibsonlaw.com/>). Just as an easy, logical

or memorable telephone number can be a helpful business tool, a well-chosen domain name increasingly is important so that customers and others can readily find your businesses, products or services on the Internet and remember them. In certain circumstances, it can be beneficial to register, obtain and use related domain names to prevent competitors or others from using them. Furthermore, the competition for desirable domain names increases as more and more become taken. So, every business should register important or appropriate domain names as soon and as extensively as feasible. Also, if other parties are using a domain name containing the name or trademark of your business, then such a party possibly may be required to relinquish that domain name to your business.

Does your business create text, graphic, software, audio or film materials, such as manuals or promotional or training materials?

A “copyright” is a form of protection for original works of authorship which are fixed or reproducible in a tangible form of expression. Literary, graphic, audio-visual, architectural, musical, choreographic and other works are copyrightable, including computer programs or software. The copyright protection generally gives the owner the exclusive right to: reproduce the work; prepare derivative works based upon the work; distribute copies of the work; perform the work publicly; and display the work publicly. A copyright protects the form of expression, but it does not extend to ideas, discoveries, concepts or principles.

The copyright protection is created as a matter of law as of when the expressive work is created. The term of a copyright varies, depending upon the circumstances of the work's creation, from the 75 years from first publication to 100 years from the year of its creation to the life of the author plus 75 years. Although not required, the copyright owner may place a copyright ownership and date notice on the protected material and register the copyright with the Copyright Office of the U.S. Library of Congress. Such a notice prevents an infringer from arguing that any infringement was innocent, and such a registration provides strong evidence of ownership and entitles the owner to file an infringement lawsuit and recover certain statutory damages and attorneys fees from the infringer.

Therefore, a business should identify any valuable copyrightable works and evaluate placing notices on such works and registering them with the Copyright Office.

INFORMATION TECHNOLOGY

Does your business insist upon protective terms and conditions when buying, selling or licensing process, hardware, software, network or website technologies?

Businesses typically exercise great care to negotiate carefully and in detail when they buy or lease real estate or contract for the development and construction of a facility. However, many businesses do not take the same precautions when they arrange for major hardware, software, integration and other information technology projects -- although such projects may be mission-critical and affect directly their products and customers.

The following are issues raised by almost every information technology project, but which are overlooked frequently for purposes of related contracts:

- Is the technology compatible with the expected installation environment?
- Are there limits on the numbers or types of users included with the pricing?
- Should there be project timetables and milestones and should payments be linked to these?
- Are there limitations on your ability to use any hardware or software for additional applications?
- Should any source code, trade secret or information be placed into escrow in case the vendor goes out of business?
- Are the basic warranty and liability allocation provisions satisfactory for the circumstances?
- Does the vendor provide sufficient documentation and post-sale service?
- What types of upgrades, later versions or releases and repairs or patches are included in the contract price?
- What type of training arrangements should be arranged?
- Who owns the rights to any inventions or enhancements arising from the project?
- What information, if any, should be treated as confidential?
- Is the vendor or supplier free to do similar works or projects for competitors?

Accordingly, every business should develop technology procurement checklists or procedures based upon its industry, products and services.

Has your business established appropriate employee policies in connection with computer, email and Internet usage at the workplace? Do employees telecommute for your business?

Electronic and communication tools, such as the Internet and lap top computers, provide employees more power and flexibility in performing their duties, in or out of the office and before, during or after normal work hours. But, they also provide increased opportunities for abuse of company resources, whether for conducting personal business at desktops, organizing unions, exposing systems to viruses and hackers or engaging in inappropriate sexual advances or conduct. At the same, employers have greater power to monitor and gather personal data about their employees, such as by tracking Internet or email usage. As a result, to prevent misunderstandings and preserve management discretion, well-crafted information technology policies should be developed for state-of-the-art workplaces.

ELECTRONIC COMMERCE

Is your business protected by basic terms of use on its websites?

Internet exchanges of information and communications occur in cyberspace, but they may have real, tangible consequences in the physical world. Website activities or information may be the basis for a damages claim against a company. Similarly, a

company may wish to restrict what a user does with information obtained from a corporate website. Although a great advantage of an Internet website is that it can be browsed and used from virtually anywhere in the world, and extend your corporate presence into many more territories, there have now been numerous cases regarding the extent to which a company's website activities mean it can be sued in other states. These cases establish that conducting business through the Internet can subject a company to the jurisdiction of the courts of another state or country. For example, a business based in Illinois or Ohio -- or even France or Japan -- possibly can be sued in California based upon its website uses.

The courts have begun to issue decisions regarding the validity and enforceability of so-called "clickwrap agreements," which are the Internet equivalent of "shrinkwrap agreements" sealed in packages for consumer and software products. The available cases suggest that the courts often will enforce reasonable website terms and conditions. Generally, the more prominent the terms, and the more express indication of user approval of such terms is required to advance into the website from the home page, then the more likely it is that such terms will be enforced against the user.

Given the above, a corporate website should provide for basic terms of use, including favorable linking, information usage, disclaimer, liability limitation, dispute resolution and forum selection provisions. In particular, a business should arrange for any parent company's website to have such protections to ensure that a complete strategy is implemented.

Does your business sell goods, services or information online?

Conducting definitive transactions online, through a more "active" website, presents legal concerns beyond those of simply posting background or marketing information on a relatively "passive" or "brochureware" website. For example, a few of the issues to address for online sales activities are:

Cookies. The downloading of temporary or permanent files, commonly referred to as "cookies," to a user's system may facilitate transactions, such as by remembering user preferences. However, altering a user's system without permission may constitute an illegal invasion or trespass to the user's property. User permission for the use of cookies should be obtained.

Data security. A transaction may require a user to transmit sensitive financial or other information through the Internet. Appropriate data encryption and other security measures should be implemented to prevent the negligent disclosure of a user's private data. Also, an acknowledgment of the risks regarding such transmission should be obtained from a user.

Illustrations. As with catalogs and brochures, actual goods often vary in appearance or fabrication from those depicted by illustrations, photographs and other depictions. A disclaimer to this effect should be used in connection with such graphic materials online.

Restricted territories. The Internet allows access to markets on a worldwide basis. However, certain products may not be suitable for particular jurisdictions, whether because of different operating environments, legal requirements, export controls or other factors. For instance, power and lawn-and-garden tools in California must meet more stringent emissions and warning standards than elsewhere in the United States. Similarly, electrical equipment may be subject to different energy efficiency requirements in different countries. Such considerations should be disclosed to users and safeguards to prevent improper shipments should be implemented.

Online sales of goods, services and information should be evaluated carefully for these and other legal matters.

Is your business properly collecting, handling and using data regarding persons who browse or use your website?

One of the most distinctive aspects of the Internet is the ability to monitor the browsing activities, patterns and habits of website users, individually and in the aggregate. Furthermore, new online services often involve the delivery of sensitive personal financial and other information to the merchant. This data, individually and in the aggregate, may be very valuable for marketing and other purposes. However, the privacy, commercial use or disclosure to third parties of such data is very controversial. Governmental authorities constantly are considering the need for more specific legislation or regulations regarding the use, distribution and protection of data about website users. Except with respect to the financial, medical, insurance and child-product sectors, there generally are no privacy legal requirements in effect. Nonetheless, many businesses choose to follow voluntary privacy policies or request affirmative user authorization for the use of online data. In any event, every business should evaluate its approach to the privacy and use of user data. At a minimum, a business website should provide for the collection and distribution of user data in its terms and conditions and should comply with any statements or promises set forth in its websites.

Has your business addressed online marketing and sales in its arrangements with distributors, dealers or sales representatives?

The ability of businesses to conduct business online has created a range of issues for distribution and sales relationships. The ease with which both suppliers and distributors can establish website storefronts complicates allocating territorial or exclusivity rights between supplier and distributor, as well as between distributors. Similarly, a supplier may wish to increase its contact with end users, such as for after-sale matters, in order to gain valuable market data. Alternatively, major original equipment manufacturer may want its suppliers and distributors to participate in supply-chain or electronic marketplace mechanisms to increase operating efficiency. Thus, every business should evaluate the need to modify its existing supply, marketing and sales agreements or arrangements to address electronic commerce considerations

TECHNOLOGY VENTURES AND ALLIANCES

Is your business considering strategic alliances, joint development projects or joint ventures with key suppliers, customers, competitors or others?

The complexity, expense and competitiveness of the marketplace frequently cause businesses to work with strategic partners to share resources and risks. These initiatives may take the form of alliances, ventures or investments. The purpose of many such joint activities is to acquire, obtain access to or develop new technologies. Regardless of the form, technology ventures and alliances often involve detailed planning and significant expenditures. They may include cooperation and non-competition arrangements between potential competitors.

As such, ventures and alliances present a variety of potentially sensitive negotiation and legal issues, such as:

antitrust notifications, clearances and approvals; business plans and restricted activities; allocation and valuation of equity and intellectual property rights; executive and technical personnel selection or compensation; sharing of costs; publicity; project or corporate governance mechanisms, including voting, board, supermajority and veto rights; termination and buy-out procedures; technology licensing, technical support and administrative services; and supply, distribution and other side deals.

Ventures and alliances, therefore, may result both in a substantial amount of investigations as well as detailed contracts between the parties.

Does your business make venture capital or strategic investments in suppliers, customers or other possible partners? Do strategic business partners purchase stock in your business?

Businesses often make strategic equity investments in “start-ups” or “early stage” companies that may develop into important customers or suppliers, particular with respect to new technologies. Such companies generally are privately held and such investments are known as “private equity” deals. Likewise, businesses may purchase stock in publicly traded customers or suppliers, through “private placements” by the company issuing the securities. The investor often receives “restricted stock,” which can be sold only in certain limited circumstances.

Although, these transactions usually are strategic in nature, and are done for long-term business reasons, there frequently are substantial “venture capital” concerns as well, related to the potential for significant appreciation in value. Such returns may be realized in the event of a “liquidity event,” such as an initial public offering, or “IPO,” or acquisition by a larger company

Regardless of whether in a private or public company, strategic purchases of equity in other companies often are investigated carefully and negotiated heavily, particularly in order to preserve flexibility for management but still protect the positions of minority investors. In addition to important representations and warranties, the key protections for minority investors include:

- antidilution rights, so that investors possibly may receive additional shares in the event of later sales at lower prices per share;
- co-sale rights, so that investors may participate on a pro rata basis if the majority or founding stockholder proposes to sell stock to another party;
- preemptive rights, similar to a right of first refusal, so that investors may participate in later stock offerings by the company; and
- registration rights, to require the subject company to register the purchased shares with securities authorities, such as the U.S. Securities and Exchange Commission (SEC), so that investors may more freely to sell any restricted shares.

In addition, any later sale of stock by a strategic investor is likely to be subject to many legal requirements, possibly including filings with the SEC.

Any strategic or venture capital investment, therefore, should be reviewed closely from a legal perspective

CONCLUSION

Intellectual property and technology are likely to continue to grow in importance and complexity for business managers. The above checklist and discussion provide an executive summary for managing key legal issues, such as those presented by intellectual property, information technology, electronic commerce and venture and alliance matters.

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