BUSINESS TRANSACTIONS & INTELLECTUAL PROPERTY

Key Items That Every Start-Up Should Know

Entrepreneurs’ Bootcamp #2
March 16, 2013

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www.goodsill.com
DISCLAIMER

This Presentation is merely informational, educational and editorial in nature, and does not constitute legal advice. The views expressed here are that of the presenters and not of the Firm.

You should seek the advice of a Business Law attorney and an Intellectual Property attorney for the legal counseling needs of your Start-Up.
AGENDA

ENTREPRENEURS’ BOOTCAMP #2
Saturday, March 16, 2013 • Shidler College of Business Room A101

This free, one-day workshop is open to University of Hawaii Business Plan Competition participants and anyone interested in pursuing a business idea. The first half of the day is instructional. The second half will be interactive and dedicated to working in teams on your very own business ideas. To get the most out of this workshop, participants should be open to learning, meeting new people, and working in groups. To save a seat, register by March 14 at www.bit.ly/2013bootcamp2

9:00 - 9:15  CHECK-IN

9:15 - 10:15  EQUITY & CAPITAL STRUCTURE
Instructed by Eric Maio, Shidler College of Business Professor of Finance

10:15 - 11:00  KEY ITEMS WITH BUSINESS TRANSACTIONS AND INTELLECTUAL PROPERTY THAT EVERY STARTUP SHOULD KNOW
Instructed by Jonathan Bolton and Martin Loui, Counsel with Goodwill Anderson Quinn & Stifel

11:00 - 11:45  THE PITCH: THE INVESTOR’S PERSPECTIVE
Instructed by Tim Dick, General Partner with Startup Capital Ventures

11:45 - 12:00  INTRODUCTION OF COACHES
Coaches are volunteers from the business community with varying areas of industry expertise, including law, startup funding, marketing and entrepreneurship.

12:00 - 12:15  CALL-OUT FOR HELP
Attendees will have the opportunity to voice their business dilemmas in the hope of getting help from other participants and coaches for the remainder of the afternoon.

LUNCH PROVIDED BY PACE

12:15 - 3:00  WORK
Network and meet others who can help with your business issues.

Good people. Good counsel. Goodwill™
AGENDA

Topics of Discussion

**Intellectual Property (Martin)**

› Definitions | Types of IP
› IP in Several Industries
› Mixed Plate - IP Protection | Ownership

**Business Transactions (Johnathan)**

› Corporate Governance
› Contracting
› Avoiding Litigation
Intellectual Property (Martin)

› Definitions | IP Basics
› IP By Several Industries
› Mixed Plate – Examples of IP Risk Avoidance
WHAT IS INTELLECTUAL PROPERTY?

Definitions | IP Basics

• Creations of the mind
• Intangible from the beginning
• Specific laws allow the intangible to become property assets
TYPES OF INTELLECTUAL PROPERTY

Definitions | IP Basics

Mypinkfriday.com

Good people. Good counsel. Goodsill™
EVERY BUSINESS HAS IP - EXAMPLES

Definitions | IP Basics

- Name
- Logo
- Advertisements
- Inventions
- Products
- Custom software
- Customer lists
- Website
- Business images
- Accounting Methods
WHY DO I NEED IP?

Definitions | IP Basics

- BIG PICTURE | *IP is Relevant because, for Investors & your Acquirer, it can provide a Competitive Sustainable Advantage (SCA)*
SCA - WHAT DOES THAT MEAN?  

*Definitions | IP Basics*

- IP is Not One Size Fits All - The Mix of IP that is right for your business depends upon the
  - Industry
  - Business goals for the Start-up
  - Competition
- SCA is the first to market and next generation competitive leverage from the mix of IP.
WHERE DO I START?

Definitions | IP Basics

• IP Needs to be Recognized & Captured
• A business typically has several Types of IP
• Every business has at least 2 Types of IP
  > Business Name
  > Company Information
**BUSINESS NAME | TRADE NAME**

**Definitions | IP Basics**

- Identifies the business entity
- Register with the state

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**HONOLULU CLUB**

**General Info**

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<tr>
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<td>37852 F1</td>
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<tr>
<td>CERTIFICATE NUMBER</td>
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<tr>
<td>STATUS</td>
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<td>Nov 16, 2011</td>
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<tr>
<td>MAILING ADDRESS</td>
<td>300 WILSHIRE BOULEVARD SUITE 200 SANTA MONICA, Califomia 90401 UNITED STATES</td>
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<tr>
<td>REGISTRANT</td>
<td>HNLC, INC.</td>
</tr>
<tr>
<td>AGENT NAME</td>
<td>CSC SERVICES OF HAWII, INC.</td>
</tr>
<tr>
<td>AGENT ADDRESS</td>
<td>1600 PAUAHI TOWER 1003 BISHOP ST HONOLULU, Hawaii 96813 UNITED STATES</td>
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COMPANY INFORMATION

Definitions | IP Basics

Confidential, Proprietary, [possibly] Trade Secret Information - Several Examples

- Customer Lists
- Suppliers
- Marketing Strategy
- Recipe | Formulas
- Unpublished Financial Model
- Business plans
- Operation | Logistics
- Inventions | Discoveries
- R&D activities
- Processes | Methods
PROTECT COMPANY INFORMATION

Definitions | IP Basics

• Employee Confidentiality & Invention Assignment Agreement (even founders)

• Work for Hire – certain applicability, so for all Independent Contractors & Consultants, include Assignment of IP (e.g., graphic artist, web | software developers, etc.)


• Social Media | BYOD Policies – Confidential Info Leaked

• New Hires – Leave Prior Employers’ Trade Secrets at the Door
Intellectual Property (Martin)

› Definitions | IP Basics

› IP in Several Industries

› Mixed Plate – Examples of IP Risk Avoidance
IP in Several Industries

Products (retail)

• Website sells Hawaii sourced products
• All-in-one home furnishing packages
• Aquaponic systems for organic farming

Types of IP

• Trademark
• Copyrights (logo, website)
• Company Information | Trade Name
TRADEMARKS | SERVICE MARKS

Definitions | IP Basics

• Source Indicator of Goods/Services

[Image showing various trademarks and logos]
BUSINESS NAME & BRAND

Definitions | IP Basics

- Business Name
- A Business Name Can Be a Trademark
- Products
- Taglines & Slogans
- Logo

NIKE, Inc.

NIKE

NIKE Free
NIKE LunarGlide
NIKE AirMax

JUST DO IT.
REVOLUTIONARY TO ITS CORE
WITH MY TRADEMARK, NO ONE ELSE CAN USE IT, RIGHT?

• No – trademark rights are not an absolute right to stop everyone

• You have the right to stop consumer confusion as to the source of your products | services
OTHERS CAN CO-EXIST SO LONG AS NO CONSUMER CONFUSION | LANDSCAPE

**ALOHA™ CVD/ALD Materials**

3MS
TriMethylSilane
SiH(CH₃)₃
CAS n° 993-07-7

3,139,365

3,394,929

Aloha®
Courier Company

3,965,450
• Works of authorship

Expression, Not Idea – Hermes® scarf of canes below

Minimal creativity & fixed in some tangible form
Function
- Medical examination simulation – teaching tool
- Online restaurant takeout ordering that strengthens relations with food suppliers

Types of IP
- Patent (function/process, computer product)
- Trademark
- Copyrights
- Company Information | Trade Name
- Right of Publicity
• Process, article of manufacture, composition of matter, and machine

  - Function
  - Structure
  - Sequence of Steps
  - Design
  - System
  - Chemical compound
  - Synthesized molecules

Anything under the sun, so long as novel, non-obviousness & has utility
**SERVICES**

- Consulting
- Greenhouse farming
- Online event planning
- Online event notification

**Types of IP**

- Trademark
- Copyrights (logo, website)
- Company Information | Trade Name
- Patent (software - novel/non-obvious process)
### Technology | R&D

#### IP in Several Industries

<table>
<thead>
<tr>
<th>Innovation</th>
<th>Types of IP</th>
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</thead>
<tbody>
<tr>
<td>• New battery design</td>
<td>• Patents</td>
</tr>
<tr>
<td>• Nanotechnology innovation for medical diagnostics</td>
<td>• Trademark - depends</td>
</tr>
<tr>
<td></td>
<td>• Copyrights (logo, website)</td>
</tr>
<tr>
<td></td>
<td>• Copyrights (software)</td>
</tr>
<tr>
<td></td>
<td>• Company Information</td>
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Intellectual Property (Martin)

› Definitions | IP Basics
› IP By Several Industries

› **Mixed Plate – Examples of IP Risk Avoidance**
I CAN USE IMAGES FROM THE WEB FOR MY START-UP’S WEBSITE, RIGHT?

Examples of IP Risk Avoidance
I CAN USE IMAGES FROM THE WEB FOR MY START-UP’S WEBSITE, RIGHT?

Examples of IP Risk Avoidance

It Depends
USING WEB CONTENT | STARTING POINT

Examples of IP Risk Avoidance

• Generally, the copyright holder’s permission must be obtained to use the image.

• Copyright Clearance
  ✓ Obtain Permission (pay license fee)
  ✓ Stock images | Clip art (lower costs)
Some Start-Ups (depending upon industry) Must Undertake IP Clearance

**CAN START-UP AFFORD CLEARANCE?**

*Examples of IP Risk Avoidance*

- Public Domain
- Fair Use
- Website Terms of Use
- Creative Commons
- Photo/Media/AV Sharing
ONLINE IP RIGHTS CLEARANCE

Mixed Plate – Examples of IP Risk Avoidance

Permission Needed

By Avenue
ALL I NEED IS TO OBTAIN IS THE COPYRIGHT CLEARANCE TO USE THIS PHOTO ON THE START-UP’S WEBSITE, RIGHT?

Examples of IP Risk Avoidance
Controlling the commercial exploitation of one’s persona or public notoriety

_Hoffman v. Capital Cities/ABC, Inc._, 255 F.3d 1180 (9th Cir. 2001)
RIGHT OF PUBLICITY | DIFFERS BY STATE

Examples of IP Risk Avoidance

- Name
- Likeness
- Signature
- Expression
- Voice
Can I use these on my new website?

Right of Publicity – Post Morteum

How many clearances??? $$$$$$

- License from copyright holder,
- License from publicity rights holder, or both
Who Owns the Copyright to the Photo?
Who Owns the Copyright to the Text Content?
Who Owns the Copyright to Website Layout?
PLACING ® ON MY START-UP’S LOGO IS OK B/C OTHER WEBSITES HAVE IT ON THEIRS, RIGHT?

Examples of IP Risk Avoidance

• What is the difference between the following?
I’LL JUST COPY ANOTHER START-UP’S TERMS OF SERVICE AGREEMENT, DIY IS GOOD ENOUGH, RIGHT?

*Examples of IP Risk Avoidance*

• Generally, if your website just provides information, TOS not necessary

• Once intake of user information, upload of user content, and/or dissemination of content (e.g., downloads, VOD, etc.), a TOS/TOU agreement becomes necessary

• Internet & IP Laws intersect – compliance with DMCA, COPPA, CAN-SPAM, privacy laws, trademark usage guidelines, etc.
Business Transactions (Johnathan)

› Corporate Governance
› Contracting
› Avoiding Litigation
CORPORATE GOVERNANCE

Corporate Formation (C-corp., S-corp., LLC, LLP)

- Liability Protection
- Tax Considerations
- Differences between corporation and an LLC
  - corporate law vs. partnership and contract statutory law
  - Case law
  - Operating Agreement
  - flow through vs. double taxation (no S election)

What Kind of Company Should I Form?
Why does it matter?

- Delaware’s corporate law is more developed and more predictable than other states’ corporate law
- Corporation statutes:
  - In Hawaii—HBCA
  - In DE—DGCL
  - For an LLC it’s the ULLCA
- Other considerations?
- Registration as a foreign corporation
CORPORATE FORMALITIES

- Bylaws
- Corporate minutes
- Board resolutions
- Shareholder meetings
- Stock ledger
- Bank account
- Conduct business in the name of the company
- Adequate capitalization
FIDUCIARY DUTIES

Corporate directors’ owe duties of care and loyalty:

• must act in good faith, with the care of a prudent person, and in the best interest of the corporation;

• must refrain from self-dealing, usurping corporate opportunities, and receiving improper personal benefits; and

• make decisions made on an informed basis, in good faith, and in the honest belief that such action was taken in the best interest of the corporation.

Duty of disclosure or candor – keep shareholders informed!
Courts will not second guess the business decisions of directors who:

• act in good faith;
• act in the best interests of the corporation;
• act on an informed basis;
• are not wasteful;
• are not acting in their own self-interest.
SECURITIES LAW ISSUES

What is a security? If investors purchase with (1) an expectation of profits arising from (2) a common enterprise that (3) depends “solely” for its success on the efforts of others—it’s probably a security. (aka, the “Howey test”) SEC v. W.J. Howey Co., 328 U.S. 293 (1946).

Section 5 of the Securities Act of 1933—register or find an exemption.

Registration Statement—S-1, S-3, S-8

Exemptions—3(b), 4(1), 4(2) (Reg. D), 4(1) ½

Rule 144 (safe harbor)

10b-5 (’34 Act) and state fraud claims (HRS 485A-501)
Business Transactions (Johnathan)

› Corporate Governance

› **Contracting**

› Avoiding Litigation
CONTRACTING ISSUES

Know What Your Contracts Say and Why!

- Put everything in writing
- Avoid boilerplate - be precise
- Consider representations and warranties (express and implied) | disclaimers
- Payment terms | remedies
- Limitation of liability | liquidated damages
- Best efforts, reasonable efforts, commercially reasonable efforts
CONTRACTING ISSUES

Know What Your Contracts Say and Why!

- Defense | indemnification clauses
- Choice of law | Choice of forum
- Waiver of jury trial | arbitration agreement

KEYS TO REMEMBER:

- Get legal advice early
- Understand your rights and obligations
- Follow the terms of the contract, including notice provisions

Good people. Good counsel. Goodsill™
Business Transactions (Johnathan)

› Corporate Governance
› Contracting

› Avoiding Litigation
AVOIDING LITIGATION

Best Practices for Avoiding Lawsuits

• Consider who you are contracting with
• Consider getting a D&B or Equifax credit report
• Search if they were involved in prior lawsuits
• Consider policies for your customers and vendors
• Consider requiring security for payment (deposits, LCs, etc.)
• Consider appropriate payment terms (C.O.D. or 30 days net)
AVOIDING LITIGATION

Best Practices for Avoiding Lawsuits

- Do a good job
- Settle disputes early
- Remember the NY Times rule
- Put everything in writing
- Keep meticulous records
- If you get a letter, respond with a letter
- Seek legal counsel early!
LEGAL COUNSELING

For Start-Ups

• How does a Start-Up afford legal counseling?
  ➢ Budget legal costs in Business Plan - master forms and IP protection
  ➢ DIY for simple issues to avoid risk (e.g., Creative Commons)

• Legal issues can appear deceptively simple - it costs more to fix a problem later, than to strategically plan for and fund it upfront.
QUESTIONS

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