



New Media and Technology Legal Bootcamp: Corporate and IP

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- Principal, Mirsky & Company, PLLC, DC and NY
- Formerly in-house counsel with *National Journal* and *Atlantic Monthly* magazines
- Clients in new media and technology, including intellectual property, corporate and finance, privacy, joint ventures and partnerships, and employment and HR matters.

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- Partner, Baker Hostetler, LLP, focusing on IPR issues
- Baker Hostetler is a general practice firm with more than 700 attorneys in 11 offices in the U.S.
- Particular experience in patent litigation and appeals as well as strategic client counseling, especially in potentially adversarial situations

IP: Business Must Own (or Have Necessary Rights to use)

- Trademarks, copyrights, and patents must be company property (or licensed to the company)
- No written agreement -- any IP developed prior to joining the company will be property of the individual
- Assignments, work made for hire and other agreements

Intellectual Property Summary

Type of IP	Coverage	Examples
Patents	Processes, machines, manufactures, compositions of matter. Also plants and designs	Inventions
Copyrights	Writings, images and other original works of authorship	Literature, Art, Software
Trade Secrets	Data, information and know-how not widely known	Confidential information, e.g., Coca Cola recipe
Trademarks	Brands, company names, product and service dress. Also domain names	Establishing identification of origin of goods, e.g., Nike swoosh



Patents

Patents: What is the major *practical* problem when you have an idea?

Copyright: Types of Works Protected

- A Novel
- Computer Software Code
- A Video
- Video Game
- A Poem
- A Sound Recording
- An Architectural Work

Copyright vs. Patent

- Ideas versus expression of ideas – speed versus long process).
- Example: software developer

Trademarks

- Federal and State laws apply
- Words, phrases, designs, shapes, sounds, and even smells and colors, used to identify one's goods/services and distinguish them from the goods/services of others
- Owner is the first person to use or register as mark for this good/service
- Indefinite term – federal registration lasts 10 years but can be extended. Cost is nominal.

Trade Secrets

- Federal and State laws apply
- Must keep secret. Prohibits use by others if learned in an improper manner (e.g., theft, deception, etc.)
- Reverse engineering OK
- Must take steps to keep confidential
- No notice requirement; indefinite term

Protecting True “Ideas”

Issue: A business plan, concept, script, or really just **an idea** for doing something. Concern that sharing it with anybody will risk all sorts of problems.

Why Form a Company At All?

- Why form a company at all?
- What benefits do sole proprietors get from company formation?
- What's actually involved in forming a company?
- Nonprofits?

Choice of legal entity

- Type of entity – LLC, S corporation, C corporation, limited partnership
- Usually want limited liability, flexibility and minimize taxes
- 2 situations where C corp is recommended
- Differentiating S corps and LLCs

S Corp vs. LLC: Compare

Attribute	S Corp	LLC
Liability Protection	Yes	Yes
Operational Control	Board of Directors/Officers – must have meetings, keep minutes, etc.	May be member-managed or manager-managed
Federal Income Tax	Pass-through; however, S corp must file separate company tax return	Pass-through
Ownership Restrictions	Maximum 75 shareholders; owners must be US citizens or residents; only 1 class of stock	None; multiple classes of stock permitted, including preferential rights
Flexibility in Profit Sharing	No; subject to same formalities and record keeping rules as traditional C corps	Yes
Employment Tax	Employment/payroll tax on salary; no employment tax on dividends paid to shareholders	Self-employment tax on <u>total</u> net income

Choosing the Right State (or ... Why Delaware?)

- Entity must register and pay taxes in each state in which it does business
- Delaware advantages:
 - No state tax on C corps
 - Management has powers vs. directors (and shareholders)
 - Few rights for minority shareholders

Failure to Document Management and Ownership

- Default rule is quasi-general partnership – everyone has equal ownership and equal voting rights
- Can give minor players unwarranted veto power
- Need documentation of ownership stakes
- Need documentation of management structure so business can operate
- ***Easier to negotiate at early stage***
- Risk of piercing corporate veil through lack of business formalities

Employment/Labor/HR

Employees vs. Independent Contractors

- Just because you don't withhold taxes/ provide benefits/grant vacation, doesn't make the worker an IC
- Penalties include overtime, liquidated damages and attorney's fees
- Use of Interns: Be careful

Employment/Labor/HR

Work-for-Hire/Inventions Agreements

- Must be in writing BEFORE work begins.
- Needed for ICs, not needed for employees.

Don't Let the Value of the Company Benefit a Competitor

- Can the value of the company – personnel, know-how, IP – walk across the street and set up a new (competing) venture?
- Employment agmts: DC (and most states): Basic terms of employment must be provided *in writing*
- Noncompetes: How enforceable?
- Nonsolicitation
- Confidentiality: Typical issues

Tax Issues

- “Pass-through” means exactly that.
- Cashflow Problems, however.
- If the LLC has losses ...

Contracts

- NDAs: What value?
- 2 agreements most common to all businesses:
 - Independent Contractor Agreement
 - Customer Agreement/Service Provider Agmt
- Simple documents that save LOTS of headaches – “work for hire” agreement, NDAs, employment offer letters

Investors/Financial

- Debt versus equity.
- What do you have to give up?
- Why are you looking for outside financing?
 - Cashflow?
 - Strategic investors – what purposes?
 - Growth plans?



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