

Sponsors' Content Distributed By Greater Wilmington Business Journal

# LEGAL ADVICE TO SMALL BUSINESS OWNERS



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or entrepreneurs, legal advice may not seem like a priority... until it becomes a necessity. Below, four local law experts discuss why ongoing counsel can not only protect a budding business but also help it survive and thrive amidst competition and unanticipated hurdles that may arise.

### What can a client do to prepare for an initial meeting with an attorney?

**JEREMY WILSON:** First, think through all the questions you have for the attorney. Second, prepare to be brutally candid and open. And third, bring all relevant documents to the meeting.

Remember, there are no bad questions. And, often, issues that are not the subject of the initial representation will overlap, from a legal perspective. Those areas are important to talk through with the attorney. In my personal injury practice, for instance, issues that may seem minor to a client can have a real effect on their case – whether involving insurance coverage, employment or other issues.

Before an initial meeting, the client should make a list of all potential legal issues and related questions on their mind. A good attorney will ask the right questions at that meeting to identify the important issues, even those not initially raised. But brainstorming these at the beginning will help this process. Organizing and bringing any documents involving the topics at issue is also important.

Finally, a client should consider their immediate and long-term budget for legal services, so they can put together a strategy to get all necessary work done in an efficient and predictable manner. **ANDY JONES:** While this will vary based on the subject of the consultation, in almost every circumstance, we advise clients to gather and review all relevant documents and communications to refresh their recollection of the matters to be discussed.

With more complex engagements, the client may want to prepare a summary of issues to discuss. In the transactional context, this could take the form of a letter of intent or term sheet. In the litigation context, it may be a fact chronology or point-by-point response to allegations made by the opposing party.

Regardless of the circumstance, it is always a best practice to ask the attorney with whom you are meeting what information he or she would like you to bring to the consultation.

### **Meter INSIGHT**ful DISCUSSIONS

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ASHLEY JOHNSON Patent & Trademark Attorney, Dogwood IP Law

JOHN HINNANT: One of the best things clients can do to prepare is to make sure they bring any pertinent documentation related to the legal issue they need addressed with them to that initial meeting.

Have a will you need updated? Bring a copy of the old will with you. Have a question about your rights under a contract? Bring the contract with you. Have you been sued and want the attorney to defend you? Bring a copy of the lawsuit papers.

Documentation is an important part of almost any legal matter, and the sooner a client can get any pertinent documents to their attorney for review, the more efficiently the attorney can analyze the client's problem and give sound advice based on the available facts.

**ASHLEY JOHNSON:** You should bring as much information as you can to your first meeting to give your attorney the best mental picture of your issue. If you are meeting with a patent attorney, for example, it's a good idea to bring all records, drawings, prototypes and notes you have to help the attorney understand your invention inside and out.

In addition, although not required, it is a good idea to do initial research on your own to find out if your invention already exists, such as through a Google patent search. Even if your search raises questions, you can discuss those with the patent attorney at the initial meeting.

It would also be beneficial to have your goals for the legal representation - such as licensing your invention or trademarking your logo - clearly defined at the initial meeting.

#### How can an attorney assist an



#### entrepreneur in starting his or her business?

HINNANT: There are so many ways an attorney can help a fledgling business get off the ground that trying to list them all would be almost impossible, and a lot of the examples would depend on the type of business the client wants to start.

For instance, a restaurateur might need an attorney to look over or draft a commercial lease for the space the restaurant will occupy. A craft brewery might need to consider a trademark to protect their brand. Attorneys can also offer advice on which corporate entity is right for your business sole proprietorship, partnership, incorporation and so forth.

I find my role with business clients is often that of a trouble-shooter, meaning that I try to help my clients identify the likely pitfalls they will encounter in whatever their field of endeavor, then plan ahead to try to avoid those pitfalls or minimize their impact as much as we can.

JOHNSON: In my experience with entrepreneurs, one of the biggest benefits an attorney can provide is protecting the intellectual property of the business. Specifically, the attorney can help set the business up for long-term success by advising on the right strategy to protect the business's intellectual property.

For example, patents are worth pursuing if the entrepreneur has an invention with strong commercial value or with a competitive edge in the industry. Having patents and trademarks filed can assure potential investors that the entrepreneur is serious about taking the business to the next



level.

The attorney can also prepare and negotiate contracts, such as nondisclosure and licensing agreements, that are often needed when starting a business.

JONES: An attorney should serve as a counselor and trusted advisor to an entrepreneur, helping that client navigate the complex legal and regulatory environment facing the new business. When working with entrepreneurs, we try to leverage our experience to proactively identify legal issues and risks specific to their business needs, then work to implement a strategic plan to address each.

In addition, we recognize that many of the initial hurdles entrepreneurs face are not legal in nature, so we liberally connect these clients with other trusted service providers (e.g., CPAs, financial advisors, insurance brokers and bankers) that can provide professional guidance in their areas of specialization. In our experience, bringing together this team of collaborative advisors early is critical to the success of any new business.

**WILSON:** The most important role an attorney can play for a new business is that of a trusted advisor - to be there with the business to provide advice, identify legal issues and provide quality legal service as the business grows. Each business is different and there is a wide variety of legal issues a new business may face. Having a committed attorney or law firm that is responsive and experienced will be helpful to any entrepreneur.

For a new business, such as a startup, attorneys can help the business protect its intellectual property and formalize the relationship among the business's founders by establishing some sort of business entity with

<sup>44</sup> Failing to protect a business's intellectual property is failing to properly invest in a business."

> JEREMY WILSON Litiaation Attorney Ward and Smith, P.A.

> > formal organizational documents and agreements in place.

Failing to protect a business's intellectual property [IP] is failing to properly invest in a business. The type of IP protection needed varies based on the type of business - whether it is trademark, patent, copyright protections, or all the above. Protecting the business's intellectual property will allow the business to grow effectively and prevent another company from suddenly and unfairly benefiting from your great ideas and hard work, leaving your business with limited recourse.

Further, a new business simply must put the right business structure in place - whether an LLC, corporation or some alternative entity – with the right documentation that addresses numerous related legal issues. Doing so protects the owners from personal liability and prevents other situations that may jeopardize the business, such as a 50/50 deadlock over the business's future and similar issues.

Having an attorney help to protect a new business's IP and formalize the relationship among the owners also has other important benefits involving future investors - it shows investors that the new business has its act together, makes the investment more attractive, and protects investors from unintended risks.

#### What issues could have been prevented by ongoing legal counsel?

**JONES:** We frequently find that many of our clients' litigation issues could be

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avoided, or at least mitigated, had they received proactive counsel on the front end.

We try and engage with our business clients early and often to identify and mitigate risks involved in their policies, practices and relationships. Investing this bit of time on the front end helps a client avoid a much greater expense on the back end.

**WILSON:** Failing to explore the protectability of the company's potential intellectual property can be a big mistake. This may involve a business brand that unintentionally infringes on another company's trademarks, or an invention that infringes on another's patent. Not analyzing these issues early can mean significant investments are lost, or, at best, a lot of work and money is required to mitigate the problem.

Additionally, failing to have sophisticated organizational and governing documents in place has resulted in numerous problems, including an owner facing personal liability or a business being derailed by an owner's life-changing event, such as death, incapacity or divorce. The right foundational documents can address all these issues, as well as unanticipated issues, but many businesses do not execute such documents.

Ongoing legal counsel can also make a real difference in employment-related matters. Many businesses try to address all employment issues themselves, but problems arise when they are confronted with an employment-based complaint or controversy and did not have the proper policies and procedures in place.

Simply having an ongoing employment attorney that a business can call on before taking any official employment-related actions can help save a company from expensive litigation and government investigations.

**HINNANT:** The best way to summarize an answer would be to say that it is human nature to only see what is right in front of us. Most business owners have their hands full focusing on the day-today aspects of their business, working hard to provide the best product or service they can, while also managing employees, a budget and everything else that is part and parcel of running a business.

Attorneys can help provide that objective overview and plan for worstcase scenarios. For instance, what happens if a business fails? What are the rights of individuals involved in that business? A partnership or operating agreement can help address those issues and provide a structure for winding down the business, so having one drafted and in place beforehand is almost always a good idea.

Attorneys are taught to objectively think about and plan for worst-case scenarios, which is often difficult for clients to do when they are swamped with day-to-day business matters.

**JOHNSON:** One of the most common pitfalls I've seen is the failure to keep otherwise patentable concepts confidential until after applying for patent protection. Many entrepreneurs do not appreciate that U.S. patent laws provide inventors with a limited one-year grace period to file a patent application after any public disclosure of the invention, such as at a trade show, website launch or third-party sale.

Another common mistake is to delay filing for patent

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protection until funding is secured or extensive testing has been done. The U.S. follows a first-to-file rule (the first inventor to file a patent application with the Patent Office is awarded patent protection), so it's vital to file your application as soon as possible.

Yet another mistake is adopting a trademark already in use by a third party. This can be costly if the client has spent money on marketing, logo development and brand recognition. A trademark attorney can be a valuable resource to conduct a trademark clearance search early on, before time and money has been spent.

## What should an entrepreneur know

# about the patent process?

**WILSON:** Our firm's patent attorneys often find that new clients are surprised by how complex the patent process can be, particularly once you get past the initial application. Our country's patent procedures are not a mere registration process; there is a complete examination of whether the proposal is patentable and what patent protections are appropriate. The initial work to prepare and file the application is fairly predictable but the examination stage is difficult to predict.

There also can be meaningful differences in the process based on the type of patent sought. Electrical or software applications can take much longer than some mechanical arts areas, for instance. A good lawyer with experience in the particular patent area at issue can help advise a client on what to expect from timing, costs and results perspectives.

Entrepreneurs should remember that they are dealing with a fairly complicated process that is controlled by the federal government. Getting a lawyer



involved early and starting the process early is important. This is particularly true now that the U.S. patent system has adopted its first-to-file approach.

**JOHNSON:** The patent process typically begins with a study of whether the invention is patentable, which can be handled through a search of previously-filed patent applications. The search and patentability evaluation are optional, but they are helpful tools in deciding whether to file a patent application or seek other forms of protection, such as maintaining the invention as a trade secret.

If the invention is patentable, the next step is to file a patent application with the USPTO. The patent application is a legal document that describes the invention in both legal and technical terms. Due to a huge backlog, it can take the USPTO six months to two years to review an application. During this time, the invention has "patent pending" status.

Eventually, a USPTO examiner will review the application and conduct a separate search for similar inventions to either accept or reject the application. Most patent applications at the USPTO are initially rejected, and the role of the patent attorney during examination is to convince the examiner that the claims are patentable. Depending on the extensiveness of the rejection, it can take one to two years to overcome.

If successful, a patent is then issued, and the entrepreneur can enforce the patent against competitors. While the cost can vary greatly, entrepreneurs can expect to pay between \$5,000 and \$10,000 from filing to issuance of the patent. The entrepreneur is further required to pay maintenance fees every 3.5, 7.5 and 11.5 years after the patent is granted to keep the patent in force.

**JONES:** Consider patent protection before disclosing your invention publicly. Once your invention is involved in commercial activity or available online, for example, the one-year grace period to file in the U.S. begins and – in some international regions, like Europe – your right to file has already ended. If filing for patent protection is a good fit for your budding business, be prepared to spend \$10,000 over a period of two to five years.

The process, from application filing to a patent, can vary significantly but most first-time filers will file a provisional application first. This application lasts one year and is never examined for patentability but instead serves as a placeholder while the entrepreneurs continue to tweak, modify and test the commercial viability of their invention (cost to file ranges from \$3,000 to \$5,000, generally). Before the one-year provisional application expires, the application may be converted to the more formal non-provisional application that is reviewed for patentability.

The conversion – and subsequent prosecution of the application before USPTO examiners – will have costs that vary according to the complexities involved with the invention and the

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concerns raised by the patent examiner. The patent examiner's job is to review the application for compliance with a swatch of technical regulations. But, most importantly, they search through databases to determine if there was any public knowledge of the invention before the patent application was filed. Prosecution of the patent application involves the back and forth arguments and responses between the examiners and the attorneys.

Thanks to my colleague, Lyle Gravatt, intellectual property attorney at Forrest Firm, who assisted in compiling this response.

**HINNANT:** The entrepreneur should develop an understanding of whether what they have conceived of is patentable or not, but the entrepreneur should not disclose their invention to anyone outside the presence of a non-disclosure agreement. If a patentability study determines that the entrepreneur may have something patentable, then a patent application should be prepared and filed in the USPTO.

While the patent prosecution process may take quite some time to provide an allowed patent, the entrepreneur's rights in the invention commence with the filing of the patent application. Obtaining a patent is somewhat expensive, perhaps even on the order of tens of thousands of dollars before it is all said and done.

A patentability study will provide some insight into whether this expense can even result in a patent. While some concept or method of doing something turns out to not be subject to patent protection, that does not necessarily mean the entrepreneur cannot make money from the concept or method.

#### What new issues and concerns has technology created in terms of patents?

**JONES:** The idea of granting a limited monopoly to entrepreneurs in exchange for publishing the details of an invention for the world to see was embedded in the U.S. Constitution, and the last major reform to the laws regulating patents occurred in 1952. So, you can imagine how difficult it is for courts to apply concepts from 1952 to software, cloud storage, blockchain technologies and other technologies.

Determining when to grant protections to the new automatic and remote versions of pre-existing goods and services has been a source of constant debate, both among practitioners and in the court, as we encourage and reward innovation while trying to avoid stifling healthy competition.

My colleague, intellectual property attorney Lyle Gravatt assisted me in this response.

**HINNANT:** Technological innovation has always been the driving force behind the patent process. An inventor is awarded a short-term monopoly – less than 20 years – in exchange for publicly disclosing a patent. So, technology in and of itself does not present any new issues or concerns that cannot otherwise be dealt with in the patent process.

**WILSON:** New areas have opened up to patenting that include Artificial Intelligence, software and other computer-based implementations. The patents and prospective patents around these specific technological areas are more crowded, with more individuals seeking nuanced patent protection.

With limited or no precedent around some emerging technologies, there also is less predictability in terms of what the U.S. Patent and Trademark Office (USPTO) may deem patentable. Some of these areas include individuals seeking patents for a process historically done manually that now can be accomplished using software or some other technologically advanced process. opposed to traditional mail and lengthy in-person meetings in Washington, D.C.

**JOHNSON:** The steady increase in technological innovations is matched by an increase in the number of patent applications filed year after year. The U.S. Patent Office already has a significant backlog of unexamined applications, and this backlog will continue to grow as a result of the increased number of new applications filed.

As a result, business owners may experience an extended "patent pending" period before a patent is ultimately granted.

#### Why are trademarks important to a business, and what should be done to protect them?

**JONES:** For many businesses, their goodwill and reputation are among the most valuable drivers of growth. Before protecting a trademark, new businesses should ensure that they have the right to use their brand names, logos and taglines; it's possible competitors already have pre-existing rights.

While limited rights may exist for any business using their brand

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> **ANDY JONES** Attorney, Forrest Firm

commercially, those rights are generally limited to the geographic areas in which they operate or specifically target. Filing for trademark protection extends those rights nationwide and makes enforcement against "confusingly similar" competition easier.

Lyle Gravatt, intellectual property attorney at Forrest Firm, assisted in compiling this response. **WILSON:** The root of trademark law is consumer protection – by protecting trademark rights, we reduce consumer confusion and consumers accurately can understand the source of a particular good or service.

However, trademarks have major benefits for a business. A distinctive name or logo creates a meaningful brand that will identify a business and distinguish it from others. A good trademark is an effective marketing tool that can provide a consistent and ongoing image to customers. It also prevents imitators from trying to unfairly profit off a business's hardearned brand.

First, a business must determine if it actually has a true trademark. Overly descriptive names, such as "Wilmington Store," are not trademark-able; only distinctive marks are. Further, it may be that a business's great idea for a name infringes on another company. While there may not be any overlap in sales initially, what happens when a business grows to other states or develops an online presence? It therefore is important to consult an attorney early on to help identify actual, protectable trademarks.

From there, the process is fairly straightforward. Federal trademark filings provide a business with the right to use that mark nationwide. And compared to some other legal services, such as patents, they are fairly inexpensive and easy to obtain.

Simply put, a business must identify whether it has potential trademarks early and register them appropriately – and invest the resources to do this the right way. Otherwise, the business may find itself paying later when it is confronted with claims of infringement from another business or must completely rebrand itself with a different name, logo, URL and/or other identifying marks. This happens more frequently than you might think!

**HINNANT:** Trademarks provide brand recognition to products and/or services. Consumers can be further drawn to a business due to such brand recognition.

While there are common law protections for trademarks, these are limited on a regional basis, where the mark has previously been used. The most effective way of protecting a trademark is through Federal registration in the USPTO.

**JOHNSON:** Trademarks are recognizable words, logos or symbols that



Interestingly, technology also has transformed how inventors and attorneys interact with the USPTO. Patent applications are now analyzed though electronic filing, videoconference and other technology-based processes, as

#### **Methods Insightful DISCUSSIONS** Sponsors' Content Distributed By Greater Wilmington Business Journal

associate a particular set of products or services with a business. In this way, businesses can use trademarks to distinguish their products and services from those offered by their competitors. Further, trademarks make it easy for the business's brand to stand out and capture the attention of consumers. Trademarks therefore provide the business owner with a long-term competitive advantage.

Unlike other forms of intellectual property, trademarks can last forever, so long as the business continues to use it in commerce. In addition, trademarks are a valuable asset that can appreciate in value over time. For example, the more a business's reputation grows, the more valuable the brand will be.

Businesses should register their trademarks with the USPTO to protect the brand and to obtain superior legal rights against third parties. Ultimately, by registering their trademark, a business builds a barrier of protection around the brand, making it more difficult for competitors to profit from the business's reputation and goodwill.

#### How should employers draft a social media/internet policy?

**JOHNSON:** Employers should be vigilant in protecting their reputation and intellectual property by providing a well-structured social media/internet policy. Specifically, the policy should define the uses of the business's trademarks, so that the marks are used appropriately. The policy should also define information and ideas that may not be discussed publicly, such as trade secrets or other confidential information.

WILSON: Having a bad social media/

internet policy is worse than not having one at all. A business should consider what it would like to regulate based on the type of work involved and the roles of its various employees. Whether or not the company provides access to company computers or other company-owned systems that might access social media and what the desired policy for company property may be – also should be considered.

Given the complexities involved, the business should then consult with an attorney. Our law firm's employment attorneys, for example, routinely draft social media and/or internet policies that address issues like: use of company equipment/systems and company intellectual property when posting; protections for confidential information; and the use of photo and/or video from the workplace.

JONES: When it comes to social media and/or internet usage policies, be reasonable.

Employers fed up with actual or perceived loss of revenue or productivity may be tempted to introduce allencompassing policies prohibiting access to social media or other internet sites. However, consider the various roles of employees and craft policies tailored to their job duties.

In addition, if the company will monitor internet usage and/or content, clearly outline this intent in the policy to ensure employees are on notice of these oversight activities.

Thanks to my colleague, Beth Stanfield, employment law attorney at Forrest Firm, who assisted in compiling this response.

What can business owners do to manage the cost of

### legal services?

WILSON: The client and lawyer need to be clear on the required scope and expectations for this legal work. If the budget cannot accommodate the scope, can the project be phased? Can the outcome be attained in other ways?

Legal work for a business reflects an incredibly important investment in the business, so it should be done correctly by experienced attorneys who will do an excellent job. An open dialogue on the front end can help a business have much more predictable legal costs.

Finally, consider alternative fee arrangements. There are other ways to bill for legal services than the billablehour approach. Some litigation files may benefit from a contingency fee arrangement. Personal injury cases that I routinely handle typically utilize this model, but so do some business litigation cases. Also, a monthly retainer and project-based billing arrangements can help establish predictability for the business while rewarding efficiency for the law firm.

At the end of the day, communication between the client and the lawyer is key to addressing potential legal costs and managing them appropriately.

**JOHNSON:** Take advantage of free consultations. Most attorneys do not charge a fee for the initial meeting, allowing the business owner a chance to discuss preliminary concerns and answer any questions.

Business owners should also understand that when hiring large law firms, which are typically the most expensive, they don't necessarily pay for greatness. There are small firms and single practitioners that are excellent and available for a fraction of the cost of the larger firms.

**HINNANT:** I don't know who came up with the saying, "An ounce of prevention is worth a pound of cure," but I often suspect that person might have been a lawyer, since it is especially applicable to business owners facing legal issues.

I have seen many clients over the years try to handle legal matters themselves in order to save on legal fees. Instead of making the problem better, the problem snowballs and, by the time, the client comes to a lawyer, the cost to "cure" the problem is many times what they would have spent for "prevention."

Business owners simply should recognize that legal issues will arise and budget for them accordingly. Developing a relationship with your lawyer will help with that. The more your lawyer knows about you and your business, the more efficiently he or she can advise you. Initially, that learning curve can be fairly steep, but many firms have different fee structures, such as fixed fees for certain services, that can help the client budget for and plan around those expenses.

Most importantly, remember that it's much less expensive to fix a problem in its early stages, or even troubleshoot for problems before they arise, than it is to wait until the problem takes away all your options. Communicating with your attorneys early and often can potentially save you from an expensive fix down the road.

**JONES:** Engage with lawyers who are committed to providing proactive counsel and pricing transparency.

At Forrest Firm, we are focused on helping our clients manage legal cost by providing our services through a model that fully embraces predictable pricing something we have found helps us create sustainable long-term relationships with our clients.

### HAVE SOMETHING **INSIGHTFUL TO SAY?**

For more info, contact Melissa Pressley at (910) 343-8600 x203 or mpressley@wilmingtonbiz.com

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