

Business Law 101

What you need to know to protect your interests and ideas.

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Somewhere in the life cycle of a business—inception, dissolution or in between—chances are you'll need legal services. You may have to draw up a contract to form a business, buy office space or protect your big idea from thieves. None of the above is a time to penny pinch.

Rather than sidestepping the expense or relying on "a friend who went to law school," businesses should seek counsel from professionals with identifiable qualifications. Experts say the trick for finding qualified legal help lies in knowing what you know, knowing what you don't and knowing when to seek an authority to fill gaps.

"The perception exists that it's an unnecessary expense; that they can do without it," says Christopher Shields, a partner at Pavese Law Firm in Fort Myers since 1990. "People need to think of lawyers not only as advisors, but as helpers. And they'll expend far less money as a whole if they spend it on guidance in advance."

In the legal realm, typical considerations facing businesses are when to hire a lawyer, whether to work with a small or large firm, which skills to look for, questions to be asked and the options when poor service exists, Shields says. Also, he adds, busier lawyers are better.

"[Lawyers] that spend a lot of time looking for clients probably don't have any, and maybe there's a reason," he says. "You want responsive timely judgment. Not someone who'll overwork problems, but someone who's able to evaluate how serious a problem is and devote resources to it without overworking it."

Getting Started

If calling a lawyer when you're about to be served a summons is too late, when is it too early?

Never, says Shields. "At the inception of the business, the principals should immediately retain counsel to determine the proper entity to be formed to create the business [partnership, LLC, etc.]," he says. "[That will] determine who's entitled to shares, how they're valued, to elect the board, determine who will be officers, set salaries and determine the course and control of the corporation."



Alex Stafford

Christopher Shields: "You don't want [the lawyer] to be learning on your nickel. You want someone who does this day in and day out."

He encourages drawing up an agreement; something similar to a prenuptial. But he knows that many "dreamy-eyed" partners skip paperwork while assuming initial good feelings will override any dissension.

Too often, however, that blind faith results in exponential expense.

According to the Harvard Business Review, about 50 percent of business partnerships fail, often due to vague or overambitious expectations.

"It's like getting married but without all the laws that dictate what spouses are entitled to," Shields says. "There are critical things that have to be dealt with so partners can devote energies to the business, and you'll spend 10 times more fighting over problems than you'd have paid upfront for legal advice."

Mega Firm or Small Practice?

Hiring a larger firm often means more expense, but with price may come advantages. Multiple specialists are available, and can be called upon, when dealing with a complex issue or case. And a big-name entity might project a more powerful image in the business community than a lesser-known outfit.

Still, some experts contend less is more because clients can avoid costs associated with overhead. Although smaller firms may be run and staffed with less-experienced lawyers, there are other outfits that may have been started by veteran attorneys who left a firm to go on their own. Plus the marketplace offers boutique firms in legal niches.

Regardless, Shields cautions against making size (read: cost) the primary factor.

“You don’t want [the lawyer] to be learning on your nickel. You want someone who does this day in and day out. Someone who’s seen where the bodies are buried and has seen where mistakes have been made,” he says. “The person you hire could have lesser experience and will charge three or four hours for a task, where someone with the higher rate will get it done in half the time.”

Skill Sets

Finding an attorney with every skill a business requires is unlikely, but most develop a pattern when it comes to needs.

Cliff Ennico, author of *Small Business Survival Guide: Starting, Protecting, and Securing Your Business for Long-Term Success*, says common requirements are: preparation/handling of contracts; negotiating commercial real estate leases; understanding tax consequences of business transactions; and registration/protection of items with intellectual property concerns.

“Like doctors, lawyers are becoming increasingly specialized,” Ennico says. “The more skills that reside in the same human being, the better.”

The Cost Crunch

A good way to avoid billing issues is to iron out details up front, Ennico says. He suggests that clients negotiate rates and get estimates on costs, or at least investigate available options.

While personal injury lawyers promise a bill “only if we win,” business attorneys are likely to require a flat fee that will take into account incidental expenses—filings, deliveries, etc. Customers can demand to hold back some of that fee pending satisfactory completion, however, and should specify which extra expenses are or are not included.

A lawyer may stick to an hourly fee in matters where lengthy contact with third parties is required.

Cost-control also is dependent on how well a client is prepared, Shields says.

“Problems arise when clients haven’t thought through what they want and when they’re not organized presenting relevant information,” he says. “They want A, B and C, but they might not understand that when D through Z are presented later, those are the reasons why time is billed. If I’m not aware of all the facts, they can lead to different answers. When the answers change, the laws sometimes change.”

Other questions pertinent to selection include whether the lawyer is familiar with a particular industry and what range of legal issues he or she has encountered. But Shields encourages wariness of attorneys who spend too much time selling themselves.

“I’m pretty straightforward,” he said. “I tell them whether I think I can help them or I can’t. Clients want to have a lawyer who’s upfront and honest, not overpromising. I lean toward under-promise and over-deliver.”

Sluggish Service

The vast majority of lawyers are hardworking, conscientious professionals, but instances exist where customer service falls short of expectations.

“Fire them,” Shields says. “Answering emails, returning phone calls and responding are part of the job. You’re not allowed to say you’re too busy to work with the person that hired you. The lawyers who aren’t able to handle those tasks are the ones who are losing clients.”

Stopping short of dismissal, the Florida Bar’s Attorney Consumer Assistance Program fields complaints and resolves problems through mediation. Upon requests from clients, ACAP will contact unresponsive lawyers and ask them to contact clients with status updates.

“ACAP suggests that you call and make an appointment with your lawyer and try to work things out,” says Francine Andía Walker, director of public information and bar services. “If that doesn’t work, write a letter describing your reasons for termination and send it certified mail, return receipt requested.”

“Also, request a copy of your file, an itemized bill and return of any property or unearned fee,” she says. “Your lawyer is entitled to be paid any fees that are earned and unpaid and any costs that have been advanced, and may be entitled to assert a lien on the file until those sums have been paid.”

Patently Obvious

There are many forms of intellectual property (IP), just as there are many ways to protect it. The most common IP rights include patents, trade secrets, copyrights and trademarks, and it is important for inventors and creators to know the differences between these rights.

Patents and Trade Secrets

When dealing with new product inventions, the best protection is usually a patent. Securing a patent provides a right to “practice” an invention and grants the patentee the rights to exclude others from making or selling the invention for a specific time period—generally 20 years.

There is, however, a significant downside to using a patent, which is that the specifics of the invention are recorded in the public domain, according to Jeanne Seewald, IP Specialist and Managing Partner at Hahn Loeser & Parks LLP. Once the patent has expired, there is nothing stopping competitors from utilizing the invention, and there’s essentially a handbook in place telling them how to do it.

This is why some companies have chosen to use trade secrets rather than patents to protect new inventions. Trade secret laws protect information that is kept secret by its owner. It is, however, imperative that the holder of a trade secret have the ability to actually protect the secret, which is more easily said than done in the digital age.

Disadvantages to using trade secrets also exist. For example, if a formula was discovered through reverse engineering or employee disclosure, there is nothing stopping competitors from using the exact same formula. But there is one significant advantage—unlike patents, there is no expiration date for a trade secret, which is why the formula for Coca-Cola remains largely unknown.

Despite the fact trade secrets are granted in perpetuity, most inventors and innovators will elect for a patent. To secure a patent, the product or process has to be new; it cannot be a tweak on an existing invention. Once a patent application has been filed, the U.S. Patent and Trademark Office examines it and may choose to allow or deny. The process generally takes around three years, and the act of filing does allow people to use the designation “patent pending.”

Only two people can actually file—the inventors themselves or a registered patent attorney—and, given the nuances of patent law, using a lawyer is strongly recommended. However, to keep costs down, it is possible to carry out a basic initial search of existing patents for similar products. And even if something does exist, there may be parts to an invention that can be patented.

The time it takes to acquire a patent could also discourage some innovators. For example, a computer program may be obsolete by the time the not inexpensive process has been completed. That’s why programmers, along with other creative types, might instead pursue a copyright, which can protect anything from a program to a painting.

Copyright

“Copyright does not protect ideas, it protects the way an idea is fixed in a tangible form,” says Seewald. “For example, if I’m looking at a beautiful horizon, I can paint the scene, and the way I have put it into a tangible form is protected by copyright. But anyone can look at the same scene and paint it, because the idea is not protected.”

A pervasive belief exists that to copyright something you have to send a copy of the “tangible form of the idea” to yourself by registered post. But the reality is that copyright is assumed to exist as soon as the tangible form is created either digitally or in hard copy. It is no longer even the case that creators have to put the © mark on their creation, though this is still recommended.

There are, however, steps to ensure a copyright can be prosecuted should the need arise.

“In order to bring a lawsuit in federal court for copyright violation, you need to register the work with the U.S. Copyright Office,”

says Seewald. “You could wait until an infringement action arises, but damages can only be recovered from the date that you file.”

Trademarks

If patents are for inventions and copyright is for creativity, then trademarks are for brands. There is one major difference: While copyright and patents are covered exclusively by federal law, trademarks exist under both federal and state law, which can create a significant headache when it comes to prosecuting rights.

“It’s complicated,” Seewald says. “If you’re only going to use the trademark in one state, you can file for state trademark registration. Then, if someone files for a federal trademark using the same brand, they will own the rights throughout the country—but if you have used it before them, you will have priority in your state.”

State versus federal also creates issues around varying degrees of damages and the ability to collect attorney fees, which is why it’s important to discuss matters with a lawyer who specializes in intellectual property. And while some small businesses or innovators may feel they cannot afford it, the reality in a cut-throat world is they probably can’t afford not to.

“You wouldn’t let your hard assets go unprotected,” Seewald says. “So why let your equally valuable intangible property, such as intellectual property, go without protection?”

The Business Case

Another compelling reason why fledgling companies should ensure IP affairs are in order comes down to money—specifically, the ability to secure investment.

“It’s a chicken and egg situation,” says Timothy J. Cartwright, chairman of Tamiami Angel Fund and partner at Fifth Avenue Advisors. “Entrepreneurs might come to us and ask us for the money to get their IP squared away. But typically an angel investor will not invest until the IP is in order. There are just too many unknowns.”

The Case Study

Many of the larger IP cases in the media involve massive companies protecting brands from unlawful use. But “David and Goliath” situations exist where small companies use the law to protect inventions from large competitors.

For example, BraNovation, which produces the trademarked “Cleava” range of snap-to-bra camisoles, was recently awarded four separate patents, a move that could be hugely beneficial in its ongoing legal issues with a larger competitor, Ontel, over alleged IP infringements.



LESSON LEARNED: Naples inventor Michelle De Sousa was quick to claim a patent on her "Cleava" product, a move that should help during ongoing legal issues with a competitor.

The product, available online at cleava.com and in select independent boutiques, is the brainchild of Michelle De Sousa, a Naples resident who was looking for a quick and effective means of covering her décolletage without the need for an under-jacket camisole. What she invented was a piece of material which snaps onto a bra—and thus was born the Cleava.

The patents refer not to the cloth itself, but the fastening mechanism and the bust-size adjusters. The mechanisms form the subject of the claim.

“Just because you have filed a patent application, that doesn’t mean that the U.S. is going to give you one,” says JD De Sousa, co-founder (with Michelle) of BraNovation. “And we soon learned that just because you are awarded a patent, you have not won the lottery. You still have to defend your rights with the alleged infringers.”

Thus, in addition to spending significant funds filing the patents, BraNovation faces the prospect of another large amount defending it. In the meantime, business goes on and the De Sousas are doing trade shows and continuing to grow the company.

“We’re the original,” Michelle De Sousa says. “Our focus is now on driving the business. We’ve just got to stay strong.”

Throughout the claims process, neither JD nor Michelle gave up hope and their resolve has been strengthened by the awarding of the patents, which the company put in place at the earliest possible stage.

“I knew the value of securing patents,” says JD De Sousa, whose experience with previous (wholly unrelated) patent applications stood him in good stead. “Michelle’s patent was very simple, and very duplicable, so I realized that we needed to secure it from day one.”

So what advice would JD and Michelle have for anyone needing to protect their intellectual property?

“Find a good attorney,” she says. “Don’t do it yourself, or it could end up costing you much more. And don’t sell your product before time. If you sell your product a year before filing, it can invalidate your patent. We didn’t know that, but thank goodness it never happened with us.”

On The Hunt

Steps to take when looking to hire a lawyer:

1. Check references

- Experts advise businesses to seek the advice of people in other professions—bankers, CPAs, financial planners, etc.—to see who they’ve worked with and what were the results.

2. Surf the ‘Net

- Several websites—americanbar.org, findlaw.com, martindale.com and others—have lawyers listed by specialty area or serve as starting points to similar searches with contact information, client and peer reviews, etc.

3. In-state experts

- A directory of Florida Bar board-certified lawyers is available at floridabar.org/certification.