

Legal for Design and Tech

Some Business Basics

Philadelphia Area New Media Association
(PANMA)

February 23, 2017

This presentation has been prepared for general informational purposes only and does not, and is not intended to, constitute legal advice.

What you will learn

- Options for business formation (sole proprietorship vs. LLC vs. corporation)
- Selecting and registering a business name
- Copyright and trademark basics
- Options for independents to work together
- Internal documentation for operating a small business
- Getting it in writing: contracts (terms & conditions; scope of work)
- Developing a legal “attytude”: seeing the law for what it is

Meet Sally B. Good

Graphic Designer, Website Developer, Blogger



Wading through a sea of possibilities

Determine an organizational structure

Type of “ENTITY”

Individuals have only 3 Options

1. Sole Proprietorship

“Artificial” Entities Provide Liability Protection:

2. Limited Liability Company (LLC) (one member)

3. Corporation (single shareholder)

How to decide

Main Considerations:

- **Liability Protection (likely risks)**
- Tax Considerations –
consult accountant or tax attorney
- Funding Possibilities
- **Ease/cost of management**

Can change entity type later

Main Legal Risks

- Breach of contract (failure to perform)
- Plagiarism / copyright, trademark violations
- Trade secret disclosures
- Cybersecurity / data breach
- Physical location with third party visitors
- Damage to others' property / bodily harm
- Sales of goods
- One or more employees

1. Sole Proprietorship

Any *one* person accepting **consideration** (money or barter) for services or sales of goods

- INDEPENDENT CONTRACTORS
- CONSULTANTS
- BLOGGERS WITH REVENUE
- AFFILIATES / FINDERS

Sole Proprietorship, cont'd

- Most common for individuals
- Easiest and most flexible to manage
- Liability can be managed through **insurance**

TIP: Obtain a federal tax ID Number (EIN) to avoid using your personal Social Security Number

2. LIMITED LIABILITY COMPANY (LLC)

- Must file a Certificate of Organization with one “home” state AND register to do business as a “foreign” entity in all *other* states in which do business
- Can add members later
- Flexible, easy to manage (NJ: annual registration fee)

3. Corporation

Types:

- For Profit
- Nonprofit/Non-stock
- Benefit Corporations (“B-Corps”)
(PA, NJ, other states); B-Corp certification

TIP: Usually overkill for solo and small businesses

Corporations, cont'd

Must file Articles of Incorporation in **one state**

AND

- register to do business as a “foreign” entity in all *other* states in which they “do business”
- can add shareholders later
- More expensive and complicated to manage

Selecting and registering a business name

- Sally stays a Sole Proprietor under her own name: *Sally B. Good*
- No need to register a person's actual name.
 - Sally B. Good's Website Development
 - Sally B. Good, Blogger Extraordinaire
- May need to confirm no previous use
[more later]

Fictitious business names

- Sally later decides to name her business ***Glorious Websites***
 - “fictitious or “alternate” name
 - “doing business as” (DBA); “trading as” (t/a)
- Must register with state if intend legal use; cannot enforce contracts in court without registration
- **Not exclusive; not a trademark!** [more later]
Tip: Consider a name that will double as a brand name and be eligible for registering as a trademark

Glorious Websites, LLC

- The following year, Sally decides to hire an employee and structure her business as a limited liability company
 - Must file a Certificate of Organization with one home state and register to do business as a “foreign” entity in all *other* states in which does business
- **Must** use a designator (Limited Liability Company, Limited, Company - or abbreviation) **as part of the entity name**

GloriousWebsites.com

- Sally knows her website's domain name is NOT automatically her business name (it's her virtual *address*)
- She now wants Glorious Websites, LLC to do business as *GloriousWebsites.com*
 - Sally registers the domain name as a fictitious (trade) name in her home state of Pennsylvania
(Note: in most states, also need to publish notice of the intention to adopt the name in local newspapers)
 - Sally knows this name is not exclusive [more later]

GloriousWebsites.com, LLC

- Sally then decides to re-name her LLC to reflect her domain name
- She files an amendment to her Pennsylvania LLC registration to re-name her LLC to:
GloriousWebsites.com, LLC

Check name availability and usage!!

- BEFORE selecting a name, whether that name is:
 - Fictitious (trade name, doing business as ...)
 - the name of an entity (LLC or corporation)
 - a domain name
 - your own name (esp. if common or celebrity)
- ALWAYS conduct a search to determine whether that name has been trademarked or is otherwise in commercial use
 - **To avoid infringing** someone else's trademark, privacy/publicity rights

Basic name search

- U.S. Patent and Trademark Office (U.S. PTO)
- State where intend to register
(usually one database includes all names and *state* trade/servicemarks)
- Other common registration states:
Delaware, California, New York, Nevada
- Internet: Google and other search engines
- **SAVE YOUR RESULTS!**
- Use a paid service for more extensive searches

Name & Business Registration Summary

- Always conduct name searches; save results
- Business registrations are on the **state** level:
 - Pennsylvania Department of State's Bureau of Corporations and Charitable Organizations [Portal: PA Biz Online for employers]
 - New Jersey Department of the Treasury's Division of Revenue and Enterprise Services [Portal: Business Action Center (BAC)]
 - All states have a similar department
- Separate from trademark registration
- Tax ID Number (EIN) not necessary for registering a name or entity, but necessary for functioning as a business (checking account, tax returns, etc)

Copyright and trademark basics

- Common law rights vs. statutory registration
- Intellectual property rights granted by the U.S. government via registration process
 - U.S. PTO (Dept of Commerce) for trade/servicemarks
 - U.S. Copyright Office (Library of Congress) for copyrights
- Trademarks can also be registered in individual states if used only in that state
- The third area of intellectual property = **patents** (right to exclude others from making, using, offering for sale, selling or importing inventions)

Always two sides to consider

1. Avoiding infringement of existing rights
(wherefore the search)
2. Protecting your own rights

Trademarks / Servicemarks

- Word, name, symbol or device *used in trade* with goods to indicate *the source* of the goods and to *distinguish* them from the goods of others
Servicemark identifies and *distinguishes the source* of a service rather than a product
- Trademark rights may be used to prevent others from using a confusingly similar mark, but not to prevent others from making the same goods or from selling the same goods or services under a clearly different mark
- Examples: **business name used as brand name, logos/graphics, tag lines**
- *Name*[®] = actively registered with U.S. PTO; must renew every 10 yrs
Name^{™/SM} = unregistered or pending PTO registration
- Key concepts: 1. indicates source (the maker or provider)
2. prevents confusion in the mind of the consumer

Business Name vs. Brand

- Business name may or may not also be a suitable or desirable brand name
- The business, no matter what its name, can generate products or services, each of which can have its own brand name
- **May** be able to trademark the business name and/or names of individual products and services

Sally's brands

- “Glorious Websites” (fictitious business name also used as Sally’s brand)
- “Sally’s Superfast Service” (specific service created by Sally)
- Sally applies to the U.S.PTO to register both brands as servicemarks
- Will her application be accepted?
Probably Not! Too generic and descriptive

Copyrights: ©

common law + registered

- The Copyright Act of 1976 protects authors of “original works,” including:
 - literary, dramatic, musical, artistic, and certain other intellectual works, both published and unpublished
 - works used with electronic devices
 - works used or distributed on the internet, such as:
 - websites, blogs, mask works, screen displays, spreadsheets,
 - apps, computer programs, databases,
 - video games, virtual reality environments
 - **Fonts, fonts used in software** (always check)
- Provides exclusive right to reproduce the copyrighted work, prepare derivative works, distribute copies or phonorecords of the copyrighted work, perform the copyrighted work publicly, or to display the copyrighted work publicly

Copyrights, cont'd

- **Protects the form of expression rather than the subject matter of the work** – e.g., a description of a computer program could be copyrighted, but this would only prevent others from copying the description; it would not prevent others from writing a description of their own or from making and using the program –
cannot copyright ideas
- **Enforcement of rights requires registration with the U.S. Copyright Office** - inexpensive; collections

*Tip: for digital content, determine the predominant authorship and submit as a **literary work**, work of the **visual arts**, or work of the **performing arts***

Some key copyright issues

- **Fair use**
- **Work made for hire**
- **Digital Millennium Copyright Act of 1998 (DMCA)**
- **Public / Open copyright licenses**
 - enable the free distribution of **copyrighted** work
 - **additional permissions by creator**
 - Creative Commons (CC): author wants to give people right to share, use, and build upon a work

Fair use

- Legal doctrine that permits the unlicensed use of copyright-protected works in certain circumstances
- Section 107 of the Copyright Act provides the statutory framework for determining whether something is a fair use and identifies certain types of uses, such as **criticism, comment, news reporting, teaching, scholarship, and research**, as examples of activities that may qualify as fair use
- **Four evaluation factors** that courts consider:
 - **Purpose and character of the use, including whether the use is of a commercial nature or for nonprofit educational purposes**
 - **Nature of the copyrighted work: the degree to which the work used relates to copyright's purpose of encouraging creative expression**
 - **Amount and substantiality of the portion used in relation to the copyrighted work as a whole: both the quantity and quality of the copyrighted material used**
 - **Effect of the use upon the potential market for or value of the copyrighted work: whether, and to what extent, the unlicensed use harms the existing or future market for the copyright owner's original work**

Case by case; no formula; U.S. Copyright Office maintains online index of court cases

Work made for hire

Definition in Section 101 of the Copyright Act of 1976:

- (1) a work prepared by an **employee** within the scope of his or her employment [employer is deemed the author]; **or**
- (2) **a work specially ordered or commissioned for use as a contribution to a collective work, as a part of a motion picture or other audiovisual work, as a translation, as a supplementary work, as a compilation, as an instructional text, as a test, as answer material for a test, or as an atlas, if the parties expressly agree in a written instrument signed by them that the work shall be considered a work made for hire.** For the purpose of the foregoing sentence, a “supplementary work” is a work prepared for publication as a secondary adjunct to a work by another author for the purpose of introducing, concluding, illustrating, explaining, revising, commenting upon, or assisting in the use of the other work, such as forewords, afterwords, pictorial illustrations, maps, charts, tables, editorial notes, musical arrangements, answer material for tests, bibliographies, appendixes, and indexes, and an “instructional text” is a literary, pictorial, or graphic work prepared for publication and with the purpose of use in systematic instructional activities.

Can be difficult to determine for independent contractors: should always address in your contracts

One common method for website developers: developer is “author”; transfers rights upon being paid

Digital Millennium Copyright Act of 1998 (DMCA)

key provisions

- **“DMCA Safe Harbor”**
Limits the liability of online service providers (including website, mobile app publishers, social media services, video and photo sharing sites, comments sections on blogs and news sites) for copyright infringement based on the actions of the provider’s users
- Requirements for the service provider:
 - has no direct benefit from and control over the infringement;
 - removes any allegedly infringing material after notice in the proper form and then restores that material upon receiving a proper counter notice within 10 days of the date that material was removed, provided no lawsuit is filed within that period
 - has **designated an agent** under section 512(c)(2) to receive notices of copyright infringement claims;
Must register online with the U.S. Copyright Office (renew by December 31, 2017): \$6.00 /3 years
- It is a violation of DMCA to:
 - provide devices and technology that permit circumvention of technology designed to prevent access to copyrighted material
 - circumvent technology protecting copyrighted materials
 - remove coding that indicates the ownership and scope of any license

Options for independents to work together

- **General PARTNERSHIP:** two or more individuals or entities
automatic; joint and several liability
- Limited Partnership: one general partner + limited partner(s)
- **Joint ventures for specific projects (parties remain separate)**

- **Create a multi-member limited liability company**
- **Create a multi-shareholder corporation**
- **One party hires the other as an employee**
 - Involves obligations for tax withholding, unemployment compensation tax, possible workers comp insurance, etc.
- **One party retains the other as an independent contractor “sub” or as a third-party vendor**

Put it in writing, whatever it is!!

Getting it in writing: Contracts

- Contracts = written agreements (can be oral)
“meeting of the minds”: consideration + other terms
- **Contracts Preserve Relationships!**
- Oral agreements may be “legal” but difficult and expensive to enforce (certain kinds, e.g., for real estate, must be in writing)
- Putting it in writing is great tool to flesh out ambiguities, “test” the uncommitted; identify the devil in the details
- Some contracts, such as franchise agreements, may not be negotiable, but need to be understood
- Governed by **state** law; problem with online forms

Work Contracts

Simple method:

- Standard **terms & conditions** for every contract
- **Scope of work** – tailor to each assignment as an attachment
- Create set(s) of templates for each

Documents for Small Business

- FORMATION DOCUMENTS for LLC, corporation
- NAME REGISTRATIONS and search histories
- Trademark and copyright registrations; assignments, licensing
- Business licenses (Philadelphia Commercial Activity License); zoning/occupancy

- ORGANIZATIONAL: Operating Agreements
Corporations, LLCs, Partnerships / Joint Ventures
 - Percentage ownership
 - Management and control: Roles of the participants; majority votes
 - Allocation of assets and liabilities
 - Exit strategies:
 - buy-sell provision
 - non-disclosure (NDAs)
 - non-compete

Documents for Small Business, cont'd

- Transactions, deals
- Purchases; sales
- Leases (real estate; equipment; software)
- Independent contractors, professionals
- Intellectual property licensing
- Website Terms of Use and Privacy Policies

Sally has developed a legal “attytude”

Sally has learned to use the law to build her business and relationships; she emerges from the sea of possibilities, good to go (though darn that trademark!)



This presentation has been prepared for general informational purposes only and does not, and is not intended to, constitute legal advice.

Philadelphia Area New Media Association (PANMA)
February 23, 2017