

Internet Messaging, Advertising



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1. Patents

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Q: My company wants to license patented technology to give us a cutting edge over our competition. Are we free to use the patented technology?

A: U.S. patent laws only grant to the patent holder the right to exclude others from making, using, selling, or importing patented technology into the United States. A U.S. patent does not grant the patent holder the right to practice the patented technology. Therefore, it is important to make certain that your company is free to practice the patented technology in view of all other patents (not just the immediate patents offered in the license) or else obtain the appropriate licenses to practice such technology. Thus, evaluation of any offer to license patented technology should include a due diligence review.

2. Venture Financing

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Q: How long should the contractual covenants in my venture financing agreements run?

A: The quick answer: Until an initial public offering (IPO)—but not any IPO. Investors want assurance that their contractual rights (financial information, approval of major transaction, board seats, etc.) will expire only if the IPO is of significant size and scope. A qualifying IPO is typically defined by its total size (\$10 million plus) and price per share (200% to 500% return). Essentially, the investor is trading control for the chance of a reasonable aftermarket exit. You should request that covenants also expire if investors reduce their stake in the company.

3. Instant Messaging

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Q: My employees use free instant messaging (IM) programs to communicate with our clients as well as with their friends. Should I be concerned?

A: Most free IM services are not private and are less secure than e-mail. Also, in certain regulated industries, all client communications must be archived, a feature not included in many free IM programs. Further, IM can be more difficult to monitor than e-mail, making it the perfect method for disgruntled employees to leak proprietary information without detection. A good IM policy, similar to your e-mail policy, and a robust commercial IM client can help.

4. Internet Advertising

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Q: What are the rules governing advertisements on the Internet?

A: Internet advertisements are governed, in part, by the Federal Trade Commission Act, which forbids “unfair or deceptive acts or practices” in advertising. Like other media forms, an Internet ad must be fair and truthful, and must disclose material facts regarding a consumer transaction in a clear and conspicuous manner. Disclosures should always be made before an online purchase. Consumer information collected through Internet advertisements must be consistent with posted privacy policies and industry practices.

5. Stock Options

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Q: Don't corporations get a tax deduction on their stock options?

A: There are legal restrictions on how “tax-qualified” stock options can be structured. The employer cannot deduct the value of these options as compensation expense when the options are granted or exercised; the employee does not recognize taxable compensation income (although the spread between the option price and fair market value constitutes an “item of adjustment” for alternative minimum tax purposes). Depending on when the employee sells the option stock, the employer may then deduct a certain amount as compensation expense. If the employee holds the option stock for the required term, the employer will never get a tax deduction.

6. Software

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Q: I've developed software using my own skills and several consultants, and now I've hired some full-time employees. Sales are picking up, and we are close to raising capital. Investors want me to verify ownership. Don't I own what I paid for?

A: Absent written agreements, the copyright in software is owned by the author, and patentable inventions are owned by the inventors. Ownership also depends on whether the person is acting within the scope of his or her employment or consultancy. These are complex issues and can be remedied by agreements that transfer ownership to the employer. 