SEPTEMBER 2011 BUSINESS COUNSELOR UPDATE

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This issue of Business Counselor Update describes changes that have been made over the last quarter in the Westlaw database Business Transactions Solutions (BTS). Access to further information requires a Westlaw subscription, which can be obtained by using the contact and ordering information below.

Changes to US Patent Laws Finally Approved

The sweeping changes to US patent laws and procedures that have been discussed for years finally became reality with the enactment of the "America Invents Act". Most notably, the Act defines the "effective filing date" of a claimed invention as the actual filing date of the patent or the application for patent containing a claim to the invention (thus establishing a first-to-file system to replace the current first-to-invent system), except as specified. This change, which goes into effect 18 months following the date of enactment of the Act, aligns the US with processes followed in almost all other countries around the world. A one-year grace period (a prior art exception) is established for inventors to file an application after certain disclosures of the claimed invention by the inventor or another who obtained the subject matter from the inventor. The current system of interference proceedings will be replaced by derivation proceedings and changes have been made in the reexamination procedures. In addition, the Act creates new rules and procedures for post-grant review of issued patents.

According to the Committee on the Judiciary of the House of Representatives, the purpose of the America Invents Act was "to ensure that the patent system in the 21st century reflects the constitutional imperative. [that the] Congress must promote innovation by granting inventors temporally limited monopolies on their inventions in a manner that ultimately benefits the public through the disclosure of the invention to the public. The America Invents Act has been billed as a means for establishing "a more efficient and streamlined patent system that will improve patent quality and limit unnecessary and counterproductive litigation costs."

Appropriate changes have been made to the chapter relating to Patents (§§ 81:1 et seq.) in order to incorporate summary discussions of key provisions of the America Invents Act. In addition, the chapter now includes several new specialty forms that can be used to

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establish patent policies and procedures, including a patent policy (§ 81:159); an invention disclosure form (§ 81:160); a sample patent assignment (§ 81:161); and a policy on tangible research property (§ 81:162).

Significant Revisions to Trademarks Chapter and New Specialty Forms

Federal trademark registration, and litigation, is governed by the Trademark Act of 1946, also known as the "Lanham Act", as amended. The statutory rules have been supplemented by the Trademark Rules of Practice, which are set out in Title 37 of the *Code of Federal Regulations*. The Rules of Practice include both procedural and substantive rules relating to trademark registrations as well as other trademark-related Patent and Trademark Office (PTO) proceedings (*e.g.*, oppositions and cancellations). The PTO's own guidelines with respect to various aspects of trademark practice, including prosecution of trademark applications, have been published in the Trademark Manual of Examining Procedure. While the Manual does not have the force of statutory law or of federal regulations, it does have instructions the PTO examiners must follow when examining applications and includes many illustrative examples of the interpretation and operation of the Trademark Rules. The Lanham Act also includes a federal unfair competition law that prohibits the marketing of goods and services in deceptive ways.

This update includes significant revisions to Chapter 83 (Trademarks). Several forms have been replaced and, in particular, the chapter now includes new forms for a trademark license agreement for sale of food products (§ 83:97); trademark use terms and conditions for a licensing arrangement (§ 83:102); a trademark licensee and supplier code of conduct (§ 83:103); a collateral assignment of trademarks (§ 83:106); and a trademark assignment and license agreement (§ 83:107)

Corporate Housekeeping Matters

This update includes several new specialty forms to assist user in assisting clients with various corporate housekeeping matters, including drafting and amending the articles of incorporation, creating and filing bylaws certificates and, finally, preparing articles of incorporation and bylaws for a professional corporation.

Drafting and Amending Articles of Incorporation

One of the most important activities that counsel can undertake for his or her business clients operating in the corporate form is drafting and amending the articles of incorporation. The proper form and necessary content of articles of incorporation will depend largely on the statutory requirements of the state of incorporation. In cases where business activities will not commence for some period of time after formation, counsel may elect to file a short-form version of the articles of incorporation which includes the name of the corporation; the address of its registered office and the name and address of its registered agent for service of process; a description of the purposes of the corporation; a description of the capital structure of the corporation; and the names of the

incorporators. The requirements of the particular state may require additional information, such as a specification of the proposed duration of the corporation; the names of the initial directors; and the address of the corporation's principal business office. See master form at § 7:46. When drafting the articles of incorporation, counsel may wish to review models of articles of incorporation for corporations engaged in similar business activities, such as manufacturing. See new specialty form at § 7:121.10.

Counsel should be sure to document the completion of required formalities associated with adoption of the articles of incorporation. For example, notice must be sent to every shareholder, whether or not they are entitled to vote, and should state that the purpose, or one of the purposes, of the meeting is to consider the amendment and must contain or be accompanied by a copy of the amendment. A recommendation from the board of directors with respect to how shareholders should vote on the amendment should also be sent to the shareholders and voting at the meeting may be done by ballot that sets forth the resolution to amend the articles of incorporation (see new specialty form at § 7:134.10). Approval can also be solicited by written consent action if permitted by statute and the articles of incorporation. See new specialty form at § 7:135.10. Once approval has been completed, a secretary's certificate should be prepared and included in the corporation's minute book. See new specialty form at § 7:135.20.

Certifications for Bylaws

Corporate clients may often be asked by shareholders and outside parties to provide evidence that the bylaws of the corporation have been lawfully adopted. Once the original bylaws have been adopted a record of the actions taken should be made and included in the books and records of the corporation so that the bylaws can be inspected by shareholders and made available to third parties that request a copy. The original bylaws should be accompanied by a certificate prepared and executed by the individual or group that first adopted the bylaws. If the bylaws were adopted by the incorporators a certificate of original bylaws should be used. See specialty form at § 8:121 In many cases the incorporator will not only adopt the initial bylaws but will also appoint the first members of the board of directors at the same time and in the same certification or statement. See new specialty form at § 8:123.10 If the bylaws were adopted by the directors a certificate of adoption of bylaws by directors should be used. See specialty form at § 8:122 If the bylaws were adopted by the incorporator the initial directors may wish to formally ratify such action in a subsequent written consent. See new specialty form at § 8:123.30 Any of these certificates or consents should be included with the corporate records. When the certification is made to outside parties, such as investors or lenders, a certificate of true copy of bylaws should be prepared and signed by the secretary of the corporation regardless of whether the bylaws were approved by the incorporators, directors and/or shareholders. See specialty form at § 8:123

Preparing Articles of Incorporation and Bylaws for Professional Corporations

A professional corporation (see Chapter 18 (Professional Corporations)) is a special purpose corporation authorized under the laws of the various states for use by certain

types of professionals, as identified by statute, wishing to organize and govern their practices in the corporate form. While each state law is different, a professional corporation is generally available for use by attorneys and accountants. As with any type of corporation, the articles of incorporation and bylaws are the primary records of the decisions of the shareholders regarding "corporate governance" and it is important for any attorney assisting in the formation of a professional corporation to be mindful of the unique issues that should be covered in the articles and bylaws.

In general, the same factors relating to the form and content of articles for general corporations are generally applicable to professional corporations. See master form at § 18:39 The articles of incorporation of a professional corporation may be quite detailed, and will include information regarding the names of each of the initial directors and shareholders, as well as the shares and required capital for the corporation. In addition to the basic requirements, professional corporation statutes will generally describe any special requirements regarding the content of the articles of incorporation for any professional corporation. For example, the articles must include a statement that the corporation is being organized as a professional corporation under the applicable statute, as well as a specific statement regarding the purpose of the corporation (e.g., the type(s) of professional services to be provided by the corporation). See specialty form at § 18:101. For a comprehensive collection of purpose clauses for the articles of incorporation of different types of professional corporations, see specialty form at § 18:102

As with general business corporations, the bylaws generally serve as the internal rules and regulations for a professional corporation. While some provisions must be contained in the articles of incorporation (e.g., number of shares of authorized share) other provisions may be contained in either the articles or the bylaws. In addition to, or in lieu of, the provisions normally included in corporate bylaws, which are fully discussed in the transaction on drafting and amending General Business Corporations—Bylaws (§§ 8:1 et seq.), consideration should be given to include the following provisions in the bylaws of a professional corporation:

(1) Restriction on the ownership of the shares to persons licensed to render the professional service for which the professional corporation or association was organized.
(2) Restriction on the transfer of the shares to persons licensed to render professional service for which professional corporation or association was organized.
(3) Specification of the number and qualifications of the directors.
(4) Specification of the officers and their qualifications.
(5) Redemption of the shares of a shareholder or of a deceased shareholder by the professional corporation.
(6) Requirement that the professional corporation purchase the shares of a shareholder, officer, or director who becomes legally disqualified to render professional service for which the professional corporation was organized.
(7) Requirement that the professional corporation purchase the shares of a person who is not licensed or authorized to render the professional service for which the

corporation was organized, who may have succeeded to an interest in a shareholder's interest

(8) Provision that no member of the association is entitled to dissolve the association by his or her independent act.

The importance of bylaws for a professional corporation depends on a variety of factors. First, counsel must determine whether or not the corporation will dispense with formal bylaws and include the rules for governing the corporation in a separate form of shareholders' agreement. Second, the content and emphasis of the bylaws will be influenced by how management of the corporation will be handled, given that the shareholders of a professional corporation may opt to manage the affairs of the corporation without a board of directors in much the same way as a general partnership (§ 21:8) or a member-managed limited liability partnership (§§ 30:1 et seq.). Accordingly, the bylaws may be drafted to provide for shareholder-management, without provisions relating to a board of directors (see master form at § 18:64 and specialty form at § 18:103) and or may include provisions relating to election of directors and the procedures to be followed for actions by directors. See specialty form at § 18:103.10. Another variation for the bylaws of a professional corporation includes restrictions on sale or transfer of shares that are often incorporated into a separate shareholders' agreement. See specialty form at § 18:103.20.

Building Security Services Agreements

Businesses should always be concerned about the security of the buildings where their operations are housed regardless of whether they own the building or rent space from another party that actually owns the building. While lessees may be able to take advantage of security services provided by the landlord, it is often that case that services will need to be contracted from an outside provider. In order to give owners and lessees an idea of what should be covered in such a contract, a new form of building security services agreement has been added as specialty form at § 50:99.10. When drafting such an agreement from the perspective of the owner, particular attention should be paid to defining the services to be performed, including the number of security guards that will be provided; the duties of the security guards; the obligations of the contractor with respect to provide training for its guards; and the specific duties and obligations of each security guard, including their obligation to report any hazards or emergencies that occurred while the guard was on duty to his or her security advisor. All reports provided by a security guard must be made available for inspection and copying by the building owner. The contractor will be under a general obligation to provide security services that are consistent with industry standards and to indemnify the building owner against certain damages and losses that the owner may suffer as a result of the actions taken by the contractor and/or its security guards.

Additional New Forms and Practice Commentaries

In addition to the changes described above, the update includes several other new specialty forms (and related changes in the chapter text), including a form of Limited

warranty—Limitation on to whom the warranty extends (see new specialty form § 67:90.10) and a form of Limited three-month warranty (see new specialty form § 67:90.20) in Chapter 67 (Consumer Warranties) and an Application for surety bond and indemnity agreement—General form (see new specialty form § 68:117) in Chapter 68 (Suretyship). Notice should also be taken of the expanded coverage of the legal framework for governance of unincorporated nonprofit associations that has been included in Chapter 34 (Unincorporated Nonprofit Associations).