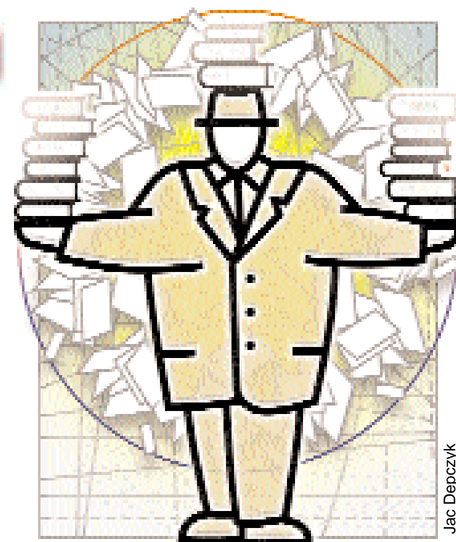
Disputes, grants, communications



1. Dispute resolution

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Q: In a dispute, we require our employees to arbitrate. Can we also require our customers to arbitrate?

A: Yes, but be careful. Courts almost always uphold agreements to arbitrate that were entered into after a dispute arises. Agreements to arbitrate entered into beforehand may receive more scrutiny, particularly in consumer contracts. Although the U.S. Supreme Court has consistently upheld predispute consumer arbitration clauses, not every such clause works. Some courts will not uphold such clauses if they require one party to arbitrate but let the other choose between suing and arbitrating, for example. If your customers are large and sophisticated, you have great flexibility. If they are consumers with smaller claims, consider the Consumer Due Process Protocol from the American Arbitration Association.

2. Business grants

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Q: Can you please explain an SBIR / STTR grant?

A: SBIR (Small Business Innovation Research)/STTR (Small Business Technology Transfer Research) grants are valuable sources of funds for potentially commercial research. Phase I grants ($100,000) are used for six-month (SBIR) and one-year (STTR) projects aimed at establishing technical merit and feasibility. Phase II grants ($500,000–$750,000) are aimed at continuing successful Phase I projects. STTR requires research partners at a nonprofit research institution, whereas the principal investigator in the SBIR program must be with a small business.

3. Telecommunications

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Q: What license or permit is needed for my company to place telecommunications equipment in the public rights of way?

A: Cities require telecommunications service providers to obtain franchises or access agreements. These contain terms regarding compensation to the locality, security deposits, and relocation provisions. If your company leases facilities from a third-party carrier, then that entity needs to be authorized to place the facilities in the rights of way. Under federal law, cities must treat all carriers on a nondiscriminatory and competitively neutral basis.

4. Intellectual property

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Q: If I purchase customer information from a bankrupt dot-com, are there limits on the ways that I can use that information?

A: If the company had a privacy policy in effect when the customer information was collected, then you should make sure that you do not use (including sell or disclose) the customer information in a manner that would violate the privacy policy.

5. Patents

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Q: Do we need to file a patent application before talking to potential investors?

A: No. It is advisable, however, to have a Confidentiality Agreement executed with anyone to whom you would plan to disclose your business process, marketing plan, or new product. Before disclosing the confidential information publicly or offering it for sale, a patent application should be filed to preserve both your domestic and foreign patent rights. Since most countries have a system based on who was first to file (with the exception of the U.S.), it is generally better to file a patent application as soon as practical, even if a company uses a Confidentiality Agreement.

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Q: I hear that under the newly passed patent law, there's a first inventor defense available to a charge of patent infringement. If I do not have that defense available to me, can I buy a company that does and then assert the defense myself?

A: No. If you buy a company that is entitled to assert a first inventor defense, that company (presumably as a subsidiary of your new, larger company) alone would be able to assert that defense. Only the location(s) where the acquired company had the defense available to it (if it is still part of the merged company) would be able to assert the defense.

6. Venture financing

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Ask the Attorney

Q: The factual representations in the draft agreement from our venture capital investors are quite extensive. How should we respond?

A: The representations and warranties are a very structured framework by which the legal and operational health of your business can be measured. Exceptions and disclosures made in response to representations and warranties assist investors to learn how your business works. Unlike a merger agreement, in which inaccuracies can lead to indemnification claims against a seller, damage claims are rarely made against a portfolio company. Often, however, founders are asked personally to stand behind company representations and would risk exposure if there were any material inaccuracies.

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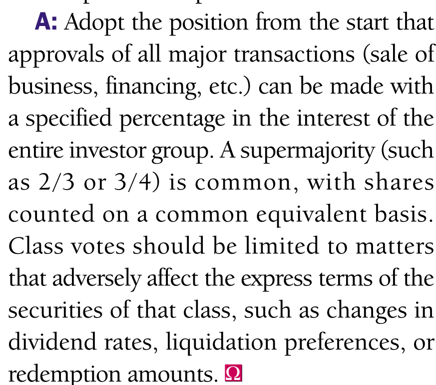
Q: What can be done to avoid disagreements between different classes of investors that might affect my ability to take important corporate actions?



A: Adopt the position from the start that approvals of all major transactions (sale of business, financing, etc.) can be made with a specified percentage in the interest of the entire investor group. A supermajority (such as 2/3 or 3/4) is common, with shares counted on a common equivalent basis. Class votes should be limited to matters that adversely affect the express terms of the securities of that class, such as changes in dividend rates, liquidation preferences, or redemption amounts. Ω

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