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Whose Good Will Is It, Anyway?

By **Andrew P. Botti, Esq.**
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It is axiomatic that employee non-competition agreements are enforceable to the extent that they protect an employer's legitimate business interests, *i.e.*, its trade secrets, confidential business information, and customer good will. See *e.g.*, *National Hearing Aid Centers, Inc. v. Avers*, 2 Mass. App. Ct. 285, 289-290 (1974). This longstanding legal tenet raises the question: Whose good will is it, anyway?

Good Will Defined

The good will of a business is often its most valuable asset. Massachusetts Courts recognize good will as an important property interest. *George G. Fox Company v. William I. Glynn, et al.*, 191 Mass. 344, 348 (1925) (“...good will is property and is a valuable asset in the ... business.”) Yet, the concept itself can be difficult to define. Perhaps one of the best definitions is found in the case of *Martin v. Jablonski*, 253 Mass. 451:

The words ‘good will’ like many other trade terms may have different meanings dependent upon the connection in which they are used and the purpose intended to be accomplished. It may mean only the advantages of a particular location for attracting business, and the expectation that former customers will continue to resort there[.] It may include in addition to those factors all that goes with a business in excess of its mere capital and physical value, such as reputation for promptness, fidelity, integrity, politeness, business sagacity and commercial skill in the conduct of its affairs, solicitude for the welfare of customers and other intangible elements which contribute to successful commercial venture [.]

Martin v. Jablonski, 253 Mass. 451, 456-457. See also *Speech Works International, Inc. v. Cote*, 2002 Mass. Super. LEXIS 390, *9-10 (“[g]ood will is a broad term and encompasses a variety of intangible business attributes such as the name, location and reputation, which tends to enable the business to retain its patronage.”).

What’s Mine is Mine

It must be remembered, however, that “[n]ot all good will properly belongs to the employer just because it was created by the employee during the term of the employment.” *Corbin on Contracts*, Vol. 6A s. 1391B note (B). (2001 Supp.) This precept was illustrated in the Massachusetts Superior Court case of *William Gallagher Associates Insurance Brokers, Inc. v. Everts, et al.*, 13 Mass. L. Rep. 716 (2000). In *Everts*, the Superior Court rejected the employer’s argument that several customers developed by one Everts while in plaintiff’s employ should belong to the employer. Everts was a long-time sales employee of the plaintiff insurance broker. During his employment, Everts serviced approximately twenty-five customers. When he resigned to go to work for a competing venture, thirteen of these customers decided to follow Everts to his new employer. The employer sued Everts and his new company over the loss of these thirteen customers and the “good will” associated therewith.

Of the thirteen customers at issue, Everts had brought two with him from a previous job, and had himself solicited the business of ten others while employed by plaintiff. As to these customers, the Superior Court found that the good will at issue was of “Everts’ own making, which he had developed with customers as a result of his own

enthusiasm, personality and abilities.” (Citation omitted). The Court also pointed out that Everts had come to work for plaintiff after having gained extensive experience and skills in the insurance industry. While employed with William Gallagher, Everts also wrote the only newsletter used as a marketing tool. There was no evidence that Everts “took advantage of any system or training” offered by plaintiff to obtain customers. As to the one remaining customer, however, the Court held that the ownership of the good will at issue was in dispute. The Court so ruled because this account had been a William Gallagher house account assigned to Everts which pre-existed Everts’ coming to work for plaintiff.

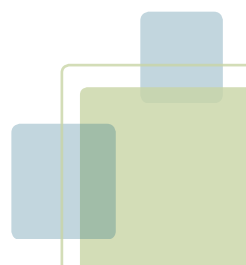
William Gallagher had argued that the good will associated with all these accounts belonged to it for several reasons. The brokerage provided Everts with the requisite clerical staff and office supplies needed to conduct business and service these accounts. The brokerage also sponsored Everts’ attendance at certain sales training programs. The Superior Court rejected all of these arguments as to why the good will belonged to the employer, and not the employee:

While hiring an employee and providing him with an infrastructure necessary for him to do his job understandably gives an employer significant

rights to control the employee’s conduct, this does not mean that the good will that develops belongs to the employer. There is no evidence ...that this type of support served to enhance plaintiff’s reputation with its customers in such a way as to generate good will.

William Gallagher Associates, page 15. The Court also pointed out that all Everts did was inform these customers that he was leaving William Gallagher’s employ, and the customers told Everts they would follow. Everts did not disparage his employer or tell the customers that his new company was the greatest thing since sliced bread. The fact that these customers followed Everts upon his mere announcement of leaving did “not show that plaintiff’s support created any loyalty to plaintiff. To the contrary, it tends to indicate trust in Everts.”

Because the courts continue to struggle with the concept of “whose good will is it,” employers should take steps to mitigate any confusion in the event that resort to an enforcement action becomes necessary. The best way to do so is to have a clear, concise and well drafted non-compete and non-solicitation agreement in place with those key employees having access and contact with the company’s customers. [DH](#)



® , TM And SM— What's The Difference?

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We are all used to seeing the familiar ®, TM or SM in microscopic superscript after a word, phrase or logo—so familiar that we don't give much thought to the meaning and impact the symbols have.

On October 30, 2006, Massachusetts ushered in a new era when it said goodbye to M.G.L. Chapter 110B—the trademark statute that had been in place substantially without revision since adoption of the 1949 version of the Model State Trademark Bill. Massachusetts is now operating under the new Chapter 110H, which is based upon the International Trademark Association's Revised Model Trademark Bill (RMTB). The new statute brings Massachusetts into line with approximately 36 other states that have already adopted the RMTB, as well as Federal trademark law. The significant benefits to the new statute include uniformity of process as well as an increased body of case law from which to draw. The new statute presents the opportunity to take a closer look at ®, TM and SM and when and why your company should use them.

®, TM and SM

® and TM are used to indicate that the attached word, phrase or logo is a trademark. SM is used to indicate a service mark. ® indicates that the mark is a federally registered mark, meaning that an application for registration has been filed with and accepted by the United States Patent and Trademark Office (USPTO). You cannot use ®, however, until your mark is actually registered. TM or SM indicates that the mark is not registered, but exclusive rights to the

mark are claimed by the mark's owner. You are not required, nor it is necessary, to use ®, TM or SM to protect your mark; however, use of the symbols clearly puts the general public on notice of your claim.

A trademark is a word, phrase, logo or design that indicates the source of a product. Similarly, a service mark is also a word, phrase, logo or design, but one that indicates the source of a service. In either case, the mark may be either a standard character mark or a stylized mark. A standard character mark is a word or series of words, without claim to any particular color, font, script, design or logo accompanying the word. A stylized mark is a logo, design or a claim of a particular color, font, script or the like in connection with a word or words.

When you apply for a trademark or service mark, you are claiming the exclusive right to use the mark within a particular category of goods or services, known as international class (IC). Your ownership of the mark does not prohibit anyone else from using the identical word or design in every instance; your mark may be used to prohibit others from using a confusingly similar mark for goods or services similar or related to those for which you have registered or used the mark, whether or not the offending use falls strictly within the class or classes you have claimed. For example, if you claim the mark "Lilly Design" in IC 45, for the provision of architectural design services, that would not necessarily prevent someone else from registering the same mark "Lilly Design" in IC 25, clothing. The threshold question in such instances is whether the public is likely to be confused as to the source of the service or product.

Ownership of the mark gives you the right to prohibit other people from using the mark. The key aspect of this right is that it protects your product's or company's reputation, in the case of a service, from impersonators or knock-offs. While federal or state registration of a mark is not necessary to claim ownership in a mark, in order to bring a claim for infringement (someone using your mark without your permission), your mark must be registered. In addition, in the event you are looking to sell your company, the value of a mark as an asset of the company will be greatly increased by registration.

In addition to the two types of marks, standard character and stylized, there are, basically, two principal grounds, or "basis", for filing your applications—"use in commerce" and "intent to use". "Use in commerce" is where you have been using the mark in your business; "intent to use" is where you are not yet using the mark in your business, but you intend to do so in the near future. If your mark is already in use, the application process involves providing basic information regarding the mark's owner, the date you first began to use the mark in commerce for the goods or services identified in the application, a description of the mark, the international class(es) you are claiming, and a sample of how the mark is used, such as submission of a photo of product packaging which displays the mark. If you are not yet using the mark in your business, then you must file your application based on a bona fide "intent to use". The USPTO will not register your mark until you actually use it. As such, filing an application on the "intent to use" basis adds an extra step in the process, as once you begin to use the mark, you must file notice with the USPTO indicating that you have started to use the mark. In most instances, you will want to apply for a mark once your company has used the mark for a while and product or service recognition has attached, while in some close industries it may be wise to protect your new marketing campaign's logos and catch phrases prior to roll out.

In either instance, if your mark is ultimately accepted by the USPTO, the date of protection goes back to the initial date of filing—a good thing because, start to finish, the process

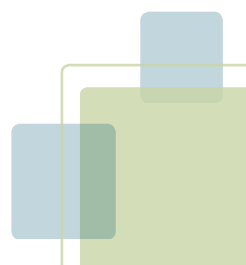
can take at least 1 year or longer. When you submit your application, the USPTO will not even assign an examiner to review your file for at least 3-6 months. Once assigned, the examiner reviews your application. If the application is accepted, it is published in the Official Gazette for opposition. Publication gives any party the opportunity to object to your mark's registration. A party has 30 days from the date of publication to object. If no objection is received, your mark's registration will issue (or a Notice of Allowance, in the case of intent-to-use applications). Most times, however, the examiner will issue an Office Action. An Office Action is a request by the examiner for additional information regarding the mark or a request that you change or modify the mark's description or claimed use. The examiner can also deny your mark on several grounds. For example, your mark may be too similar to another mark already registered, or perhaps your mark may be too descriptive or even generic.

In processing your application, the examiner will make a determination of whether or not your mark is distinctive. If the mark is not distinctive, and has not developed widespread public recognition, called secondary meaning, your application will fail. There is no protection for word, phrase or logos that lack distinction; such "marks" that are merely descriptive of the service or product are too common and, therefore, are viewed as generic.

Down the same line of reasoning, once your mark is registered, it may lose protection if it becomes generic. For example, "escalator" was once a protected trademark; however, it has now become a generic term for a moving staircase. Similarly, "Dry Ice" has become the generic term for frozen carbon dioxide, and "Videotape" for a magnetic television-recording medium. If you are interested in seeing the many words commonly used in the United States which were once protected trademarks, visit:

http://en.wikipedia.org/wiki/List_of_generic_and_genericized_trademarks

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Business Trends In Executive Compensation And Benefits

Companies turn to professionals to develop comprehensive plans

By Jim Blue
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Interest in executive compensation and benefits has increased as the market has tightened and qualified executives with proven track records have become more difficult to recruit and hire. As a result many employers have turned to professionals to help them develop competitive compensation packages to help them find and retain top executive talent. The concept of bundling an executive's pay, bonus and additional benefits has become more common and, not surprisingly, small- and medium-sized companies are increasingly expressing an interest in developing competitive plans.

Executive compensation plans often include incentive-based benefits such as performance-based pay and Supplemental Executive Retirement Plans (SERPs). As a result, a well thought out executive compensation plan needs to include both wealth accumulation and wealth protection strategies. Professionals can help employers benchmark and assess their existing "Total Executive Compensation Plans" to assure the right balance and deliver the greatest value.

As the competition for executive talent continues, the expectation is that optimizing executive compensation plans will be critical to business success, making it more difficult for businesses without effective plans in place to retain key executive talent. Today, salary, bonus and commissions are only part of an executive's compensation package, and setting up or administering a "Total Executive Compensation Plan" requires current benchmarking, knowledge of the products available and the vendors in the marketplace.

Trends also continue to point to interest in products that focus on supplemental disability insurance, long-term care, life insurance and deferred compensation plans for executives. These plans especially appeal to many baby boomers who are feeling financial pressures to care for both their family and aging parents. For this reason, supplemental insurance products nicely round-out existing compensation plans and are often recommended as part of any executive compensation and benefits package. Where salary, performance-based pay, and SERPs focus on wealth accumulation, supplemental insurance products (i.e. disability, long-term care and life insurance) complement executive compensation plans by offering wealth preservation benefits.

For business owners and majority shareholders, business succession planning, often referred to as contingency planning, is equally important. In the past, such equity transfer arrangements were mostly associated with larger firms but, starting in 2002, businesses (large and small) began asking for help with developing contingency plans. The tragic events associated with 9/11 certainly influenced many business owners/executives, but this has also been a natural 'next step' in the evolution of comprehensive, well thought out executive compensation planning. Insuring the company against unforeseen tragedy and ensuring the roles and responsibilities of the executive team are a natural outgrowth of executive planning and provide one more example of how such plans have become both more complicated and comprehensive. [DH](#)

Documentation For A Venture Capital Investment In A Private Company

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This article sets forth the primary documentation for a venture capital investment in a private company (the “company”) and explains the purpose of each such investment document. Before proceeding, it is useful to understand the investment objective of the venture capitalist (the “investor”). The investor’s objective is the appreciation of its investment and the appropriate liquidation of its investment to maximize the investor’s rate of return. The investor achieves this objective by management of its investment through the preservation of its investment, the control over material company actions and the eventual liquidity event, such as a sale of the company, an initial public offering by the company or a recapitalization of the company in which the investor’s investment is purchased by another investor.

Investment Process Overview

The investment process begins with a confidentiality agreement between the company and the investor. This agreement is designed to protect the company by preventing the investor from disclosing to any third party, except its lawyers and accountants, any information that the investor will learn about the company. Following the execution of the confidentiality agreement, the investor commences its due diligence investigation which affords it the opportunity to assess the company from a financial, management, operations and industry perspective. This investigation provides the investor with the information it requires to develop

a valuation of the company prior to the investment by the investor, typically referred to as the “pre-money” valuation, which is used by the investor to negotiate the purchase price of the securities that it will be purchasing from the company. Once the due diligence investigation is largely completed, the investor will provide a term sheet to the company setting forth the conditions on which the investor will agree to purchase the securities of the company. These terms will be reflected in the investment documentation described in this article. After the negotiation and finalization of the investment documentation, the company must obtain the necessary Board of Directors and stockholder approvals authorizing the investment transaction. The investor will then complete any remaining due diligence and the sale of the securities by the company will take place at the closing of the transaction.

Investment Documentation

The security usually purchased by the investor is the company’s preferred stock. Dependent upon the capital requirements of the company, the company may engage in more than one financing transaction in which it sells its preferred stock. In this circumstance, the preferred stock is sold in series and is typically designated as “Series A Preferred Stock” for the first transaction, “Series B Preferred Stock” for the second transaction and in the same manner alphabetically for subsequent transactions. Most venture capitalist financed companies will do at least two preferred

stock transactions. The preferred stock is convertible into the company's common stock based upon a conversion rate specified in the Certificate of Incorporation, as defined below, typically starting at a conversion rate of one-to-one. Usually, the investor may exercise its conversion right at any time. The primary and typical venture capital investment documentation is comprised of the following: (i) the preferred stock purchase agreement (the "Purchase Agreement"), (ii) the amended and restated certificate of incorporation (the "Certificate of Incorporation"), (iii) the stockholders' agreement (the "Stockholders' Agreement"), (iv) the registration rights agreement (the "Registration Rights Agreement"), (v) the company's resolutions (the "Resolutions"), (vi) the company counsel's legal opinion and (vii) certain securities laws filings, as applicable. The purpose of each of the foregoing documents is described below.

Purchase Agreement

The Purchase Agreement is entered into between (or among, if there are multiple investors) the investor and the company. The purpose of the Purchase Agreement is to set forth the terms and conditions of the purchase and sale of the preferred stock (the "Transaction"). The material terms and conditions of the Purchase Agreement can be generally categorized as follows: (i) closing provisions, (ii) representations and warranties ("representations") and (iii) covenants. The Purchase Agreement is accompanied by a document known as a disclosure schedule. The disclosure schedule sets forth the exceptions to the company's representations as well as discloses the information required to be provided by the company to the investor as part of the company's representations.

The closing provisions set forth the price of the preferred stock, the allocation of the preferred stock among investors, if more than one, the conditions that are required to be fulfilled by each of the investors and the company in order to consummate the Transaction and the termination rights of each party if the closing of the Transaction is to occur subsequent to the execution of the Purchase Agreement. Typically, the closing provisions will require that all of the representations made by the company and the investors were true when made and

remain true at the time of the closing, that all covenants have been performed by the respective party, that all consents or filings to permit the Transaction have been obtained or filed by the respective party and that the stock certificates and the legal opinion of counsel to the company have been delivered to the investor.

The representations are made by the company to the investor and by the investor to the company to induce the receiving party to consummate the Transaction. The company's representations generally include authority representations (authorization of the Transaction and obtaining all consents therefor), financial representations (capitalization, financial statements, taxation) and business representations (company and business events and conditions, material contracts and intellectual property). The investor representations generally include representations regarding the investment intent of the investor and the financial and business sophistication of the investor. Such representations by the investor to the company permit, in part, the company to claim an exemption from the registration of the Transaction under the Securities Act of 1933, as amended (the "Act").

The covenants are made by the company to the investor and typically concern affirmative and negative obligations of the company subsequent to the closing of the Transaction. These covenants provide the investor with the ability to manage its investment by being informed about and controlling certain company events. For example, the company may agree to: (i) provide the investor with certain information such as periodic financial statements, business plans and budgets of the company, (ii) provide the investor with the same information that the company provides to its Board of Directors in preparation for its meetings, (iii) have all employees sign confidentiality and non-disclosure agreements, (iv) maintain certain levels of insurance for business operations and director and officer liability, (v) reserve the proper number of shares of common stock for issuance upon the conversion of the preferred stock, (vi) provide the investor with notification of any threatened or pending litigation and (vii) require every person who acquires any capital stock in the company to become a party to the Stockholders' Agreement.

Certificate of Incorporation

The Certificate of Incorporation sets forth the rights and preferences of the preferred stock being purchased by the investor. These rights and preferences allow the investor to manage its investment through preservation of its investment and control over certain company events.

The rights and preferences related to preserving the investor's investment include: (i) liquidation rights in priority over the holders of the company's common stock upon a sale or other disposition of the company, (ii) anti-dilution provisions which increase the conversion rate of the preferred stock into common stock in the event that the company sells securities, such as another series of preferred stock, below the price paid by the investor for its preferred stock, (iii) conversion provisions for the preferred stock into common stock and (iv) redemption rights pursuant to which, upon the occurrence of certain events or upon certain dates, the investor is able to cause the company to repurchase such investor's preferred stock at a specified price, usually the purchase price plus all declared but unpaid dividends, if any.

The preferential liquidation right allows the investor to receive a return of its capital upon the occurrence of a liquidation event. The investor will usually negotiate a very broad definition of "liquidation" to include any recapitalization, reorganization, sale, merger, dissolution or change of control event. A liquidation preference may be a single participation or a double participation. A single participation right provides the investor with an amount per share of preferred stock equal to the price such investor paid for the share of preferred stock plus any declared but unpaid dividends before any other distributions are made to the other stockholders of the company. A double participation right provides the investor with the single participation right and permits the investor to share in the remaining cash or property available for distribution to all other stockholders of the company proportionately on an as converted into common stock basis.

Anti-dilution rights allow an investor to maintain its equity position in the event that the company sells additional securities at a price per share lower than the price paid by the

investor for its preferred stock. This second sale of securities is commonly referred to as a "down round" financing and occurs when the valuation of the company by the second investor does not support a price equal to or greater than the price paid for the first issuance of preferred stock. For example, if a company decides to issue a "Series B" class of preferred stock at a price per share lower than what the investors paid per share for its "Series A" preferred stock, the investors holding shares of "Series A" preferred stock will have anti-dilution rights that will adjust the investor's conversion price and permit the investor to either convert each share of preferred stock for more than one share of common stock or reduce their conversion price to an amount equal to the "Series B" purchase price. These two most common forms of anti-dilution protection are usually referred to as "weighted average" and "full ratchet" anti-dilution, respectively. It is also important to note that not every issuance of securities by the company will initiate the investor's anti-dilution rights. Usually, grants of stock options, stock issued as consideration in an acquisition approved by the Board of Directors of the company and warrants issued in connection with certain financing arrangements are excluded from anti-dilution protection.

An investor's right to convert and right to redeem its shares of preferred stock are two other common investor rights for preserving its investment. These rights allow the investor to convert its shares of preferred stock into shares of common stock at any time and to cause the company to redeem the investor's shares of preferred stock upon the occurrence of certain events or upon certain dates.

The rights and preferences related to managing the investor's investment through control over certain company events include: (i) special voting rights of the preferred stock which typically votes as a class on an as-converted into common stock basis and (ii) a list of company actions which may not be undertaken by the company without the affirmative vote of a majority or more of the preferred stock voting as a class or by a certain series of preferred stock, if there is more than one series. These control provisions usually terminate at such time as the number of shares of preferred stock outstanding fall below a certain minimum number of shares. Typical

company actions that require the approval of the holders of the preferred stock include (a) amendment to the company's certificate of incorporation or by-laws, (b) sale of assets other than in the ordinary course of business, (c) acquisition of another company or its assets, (d) issuance of additional securities, (e) incurrence of indebtedness, usually in excess of a specified amount and (f) declaration or payment of any dividend or payment of any other distribution with respect to any shares of the company's capital stock.

Stockholders' Agreement

The Stockholders' Agreement is an agreement among the company, the investor and the holders of the company's capital stock. The primary purpose of the Stockholders' Agreement is twofold: (i) to provide for restrictions on the transfer of the securities of the company (usually the common stock and, sometimes, the preferred stock) and (ii) to provide for the election of the Board of Directors of the company.

Restrictions on the transfer of securities include: (i) rights of first refusal in favor of the company and the investor, (ii) co-sale rights that allow stockholders of the company to participate in a sale of securities initiated by another stockholder on a proportional basis, (iii) mandatory sale rights that allow the holders of a certain percentage of the preferred stock to negotiate the terms of a sale of their preferred stock to a third party and require all other stockholders of the company to participate in the sale on the same terms and (iv) preemptive rights in favor of the investor allowing the investor to purchase its proportionate share of securities in most additional offerings of securities by the company in order to maintain its equity position in the company.

The Stockholders' Agreement also provides for voting agreements among the investor and the holders of common stock for the election of directors to the Board of Directors of the company supported by a proxy to vote a stockholder's shares of stock if such stockholder fails to vote in accordance with the terms of the Stockholders' Agreement. These voting arrangements provide the investor with the ability to manage its investment by ensuring that it has representation on the Board of Directors of the company.

Registration Rights Agreement

The Registration Rights Agreement is entered into by the company and the investor and, possibly, certain holders of a significant amount of the company's common stock, usually the company's founders. The purpose of the Registration Rights Agreement is to provide the investor with the right to cause the company to make an initial public offering of its common stock and, usually, one or more secondary public offerings. In the Registration Rights Agreement, the investor is given control over the timing of a public offering, one of the exit strategies for a venture capitalist. This right to cause a public offering is often referred to as a "demand registration right". The Registration Rights Agreement might also provide a right to the other parties to the agreement to include their securities in a public offering of the company's securities on a certain priority basis among the company's stockholders that have registration rights. This right is often referred to as a "piggyback registration right" and is secondary to a "demand registration right".

Resolutions

The Board of Directors of the company and its stockholders will need to authorize the Certificate of Incorporation to establish the applicable series of preferred stock and the Board of Directors will also need to authorize the Transaction and approve the other investment documentation by resolutions adopted by written consent or at a meeting. These resolutions would be maintained in the company's minute book and serve, in part, as a basis for the legal opinion of the company's counsel.

Legal Opinion

The counsel to the company will usually be asked to render a legal opinion to the investor regarding the Transaction. Generally, based upon the assumptions and the qualifications included in the opinion, such opinion states the following: (i) the company is duly incorporated and in good standing, (ii) the Transaction was duly authorized, (iii) the capitalization of the company after the closing of the Transaction is as

set forth in the Purchase Agreement, (iv) the preferred stock, and the common stock issuable upon conversion of the preferred stock, is and will be validly issued, fully paid and non-assessable when issued to the investor and (v) no registration of the preferred stock or such common stock is necessary under the Act.

Securities Laws Filings

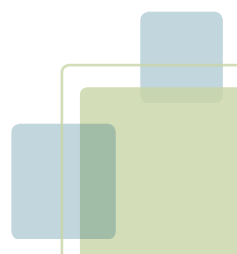
A venture capital investment is usually a private offering exempt from registration under the Act, and the company will typically rely upon one of the exemptions afforded by Regulation D under the Act and will file a descriptive notice of the offering with the Securities and Exchange Commission on Form D within fifteen days following the closing of the Transaction. Additionally, the company will fulfill the securities laws filing requirements of the states in which each investor is domiciled, typically a notice filing on Form D and a consent to service of process in such state. However, each state has its own filing requirements, some of which require documents to be filed before any offer or sale is made, and counsel to the company should undertake a review of the securities laws, also known as the “Blue Sky” laws, in each state where an investor is domiciled.

Conclusion

The drafting responsibility for the investment documentation is typically as follows: the investor’s counsel prepares the Purchase Agreement, the Certificate of Incorporation, the Stockholders’ Agreement and the Registration Rights Agreement, and the company’s counsel prepares the

Resolutions, the legal opinion and the securities laws filings. The foregoing is a general overview of venture capital investment documentation focusing on the primary documentation and outlining each document’s respective purpose and significant provisions. However, each venture capital investment transaction will likely include additional ancillary documents and such documents together with the documents described in this article may contain additional terms and conditions. Also, if the purchase and sale of the preferred stock to an investor is a second or subsequent preferred stock offering, the investment documentation becomes more complex and varied regarding the rights and obligations among the holders of the different series of preferred stock and the company.

Venture capitalists finance start-up and emerging growth companies usually through the purchase of preferred stock in a company. They manage their investment by preserving their priority position in the event of a sale or other liquidation event and by exercising control over certain company events and major business decisions. Most venture capitalists seek to exit their investment within five to seven years from the date of their initial investment through some form of a liquidation event, such as a merger or sale of the company or an initial public offering of the company’s common stock. [DH](#)



Instant Messaging Use Policies

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While employers are quite familiar with the use of e-mail by their employees, and are in fact providing their employees with e-mail and related addresses, employers are not as familiar as their employees are with the use of instant messaging. Instant messaging (IM) allows users to converse in real time over the internet. Even though IM use sounds similar to e-mail and internet use, most businesses have e-mail and Internet policies, but those policies most likely do not cover IM. Given the potential for inappropriate use subjecting organizations to lawsuits, and the recent amendments to the Federal Rules of Civil Procedure that relate to e-discovery, it is paramount for organizations to institute IM use and retention policies.

IM Facts

The importance of instituting an IM policy is especially highlighted by the frequency of IM use. The first general instant messenger was introduced in 1996, and IM use has steadily grown since then. Today, there are more than 11.4 billion instant messages sent per day, and there will be an estimated 45 billion messages sent per day by 2008. IM is predicted to be used more often than e-mail in 2007.

IM should be particularly important to organizations because 34% of current IM traffic is business related, and 93% of North American organizations have employees that use IM in some capacity, including those who use IM without management's knowledge or authorization. Furthermore, 35% of employees use IM at work, but only 31% of organizations have an IM use policy, and only 13% of organizations retain IM effectively.

Employers should be aware that the most popular IM

programs are from AOL, Yahoo and Microsoft and can be easily downloaded onto company computers, and even onto BlackBerrys and cell phones. According to the 2006 Workplace E-Mail, Instant Messaging & Blog Survey, "50% of workplace users [download] free IM tools from the internet – a dangerous practice that 26% of employers aren't even aware of..."

Why Organizations Need An IM Policy

The prevalent use of IM by employees should concern employers because the text of the IM, if shared or made public, could negatively affect business relationships, trigger lawsuits, or be used as evidence. These concerns are valid because e-mail communications have caused lawsuits, led to confidentially breaches, and have been the subject of discovery requests.

According to the 2006 Workplace E-Mail, Instant Messaging & Blog Survey, "15% of employees have gone to court to battle lawsuits triggered by e-mail." For example, in 1998, Chevron settled a sexual harassment lawsuit for \$2.2 million. The lawsuit, brought by a group of female employees, alleged that a Chevron subsidiary allowed the internal e-mail system to be used to transmit sexually offensive messages, which included a list of "25 reasons why beer is better than women." This lawsuit makes it clear that even "jokes" can result in harsh consequences.

A lawsuit between Borland International, Inc. and Symantec Corp. shows that confidentiality can be breached via e-mail. A Borland employee used his company's e-mail system to send out confidential information and trade secrets to his

future employer, Symantec. Borland subsequently brought a trade secret lawsuit against Symantec, its President and CEO, and its Executive Vice President. The case eventually settled with all claims released, but the lawsuit is instructive because it shows the need to monitor e-mail to detect breaches of confidentiality.

The text of an IM conversation could lead to these same problems and trigger similar lawsuits. Such lawsuits can negatively affect business relationships and damage an organization's reputation.

In the event that an organization is subject to a lawsuit, it needs to effectively retain IM conversations. According to a recent survey, 24% of organizations have had employee e-mail subpoenaed. The increased use of IM as a communication medium will subject IM conversations to the same discovery requests. The potential for IM to be used as evidence is highlighted by the amendments to the Federal Rules of Civil Procedure that went into effect on December 1, 2006. Those rules include the following:

Rule 34. Production of Documents and Things and Entry Upon Land for Inspection and Other Purposes

(a) Scope.

Any party may serve on any other party a request (1) to produce and permit the party making the request, or someone acting on the requestor's behalf, to inspect, copy, test, or sample any designated documents or *electronically stored information* — including writings, drawings, graphs, charts, photographs, sound recordings, images, and other data or data compilations stored in any medium from which information can be obtained — translated, if necessary, by the respondent into reasonably usable form (emphasis added) †

IM maintenance is also of paramount importance, notwithstanding impending lawsuits, because retention allows organizations to review and audit conversations in order to ensure that employees are complying with company policies.

Furthermore, organizations should have formal IM use

policies in order to notify their employees that IM (and e-mail) communications will be monitored. If an organization does not have a policy in place, an employee may argue that he or she had a reasonable expectation of privacy. A Massachusetts case involving attorney-client privilege highlights this point. The Massachusetts court held that an employee's communications with his attorney was not privileged, and stated:

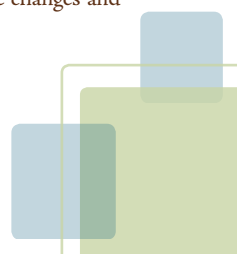
if the company's Policies and Procedures Manual plainly warned that e-mails on the network could be read by the company's network administrators, the client could not reasonably expect to communicate in confidence with his private attorney if the client e-mailed his attorney using his company e-mail address through the company's computer system.

Transocean Capital, Inc. v. Fortin, 29 Mass. L. Rep. 591, at *9 (Mass. Super. Oct. 20, 2006).

Each of the aforementioned factors present compelling reasons for employers to have a policy specifically for IM use as a corollary to, or part of, their e-mail policies.

† Fed. R. Civ. P. 34, Notes of Advisory Committee on 2006 Amendments: "Rule 34(a) is amended to confirm that discovery of electronically stored information stands on equal footing with discovery of paper documents. The change clarifies that Rule 34 applies to information that is fixed in a tangible form and to information that is stored in a medium from which it can be retrieved and examined. At the same time, a Rule 34 request for production of "documents" should be understood to encompass, and the response should include, electronically stored information unless discovery in the action has clearly distinguished between electronically stored information and documents."

Discoverable information often exists in both paper and electronic form, and the same or similar information might exist in both. The items listed in Rule 34(a) show different ways in which information may be recorded or stored. Images, for example, might be hard-copy documents or electronically stored information. The wide variety of computer systems currently in use, and the rapidity of technological change, counsel against a limiting or precise definition of electronically stored information. Rule 34(a)(1) is expansive and includes any type of information that is stored electronically. A common example often sought in discovery is electronic communications, such as e-mail. The rule covers—either as documents or as electronically stored information—information "stored in any medium," to encompass future developments in computer technology. Rule 34(a)(1) is intended to be broad enough to cover all current types of computer-based information, and flexible enough to encompass future changes and developments."



Deciding On An IM Management Solution

Organizations have several options in approaching IM management. They may want to (1) ban workplace use altogether, (2) limit access to employees for work related use only, (3) install technology that supports employees' personal use (gateways), or (4) install an in-house enterprise grade solution.

Management may believe that the easiest solution is to prohibit or ban IM use altogether. This may not be the best approach for several reasons. First, organizations will find it difficult to block access to IM use. If organizations choose to go in this direction, the best approach would be to block access to websites housing the IM software, but a savvy computer user could still find ways to access the IM software. Most importantly, though, blocking or banning IM use ignores today's culture, as well as the benefits of IM, such as the potential for increased efficiency and productivity due to time savings.

Allowing work-related IM use but banning personal use may also not be the best approach: "[a] decision to strictly prohibit personal IM may negatively impact employee morale and even drive some employees to seek employment at an organization that is more flexible and family friendly." As mentioned above, an employee may be more efficient and productive if he or she can send a quick message over IM instead of making a phone call.

Organizations may be best served to allow IM use, but only after clearly outlining an acceptable IM use policy. Furthermore, organizations should even consider installing enterprise IM options to enforce the IM use policies, and to effectively retain IM records.

Acceptable Use

An IM use policy should be no different than policies governing the use of e-mail and internet. Employees are often allowed to utilize e-mail and internet, even for personal use, but may face discipline (and even discharge) for failing to follow their organization's policies. "Improper use" should be clearly outlined in the employee handbook. For

example, IM should be not be used for jokes, rumors, obscene language, gossip, or harassing comments. These guidelines should not be novel to organizations or the employees if organizations already have acceptable e-mail and internet use policies in place. The following is an example of an IM, e-mail, internet, and telephone use policy:

While users may make occasional and incidental use of the Firm's computer and telephone systems for personal reasons, such use should be infrequent and with the understanding that there is no privacy of documents, messages or other information stored in the company files, discs or storage areas or sent via E-mail, Instant Messaging, voice mail, Internet or any other method. All such information is subject to the Firm's review and is property of the firm. The Firm's computer and telephone systems may not be used for soliciting or proselytizing for commercial ventures, religious or political causes or outside organizations that are not related to Firm business or Firm clients; nor may they be used for any employee's commercial or profit generating activities unrelated to Firm business, other than through participation in the Firm's "Announcement" email group.

Forbidden Content: Users are prohibited from using the Firm's computer and telephone systems in any way that may be disruptive or offensive to others, including, but not limited to, the transmission, reception, storage or display of sexually explicit messages, cartoons, ethnic or racial slurs, or anything that may be construed as harassment or disparagement of others. Furthermore, any material that violates the terms of the Firm's Equal Employment Opportunity Policy, Sexual Harassment Policy or Anti-Discrimination Policy (collectively, the "Anti-Discrimination Policies") may not be transmitted, received, or stored via the computer and telephone systems. E-mails and Instant Messages received from outside the Firm that violate the Anti-Discrimination Policies or any of them should be immediately deleted. Internal E-mails and Instant Messages that violate the Anti-Discrimination Policies or any of the Firm's policies

should be reported to the IT Director or the Human Resources Manager. The Firm will take action against anyone who violates this policy; that action could result in termination.

To ensure that IM use policies are followed, employers should retain and monitor IM conversations.

IM Retention and Management

Organizations should consider enterprise IM options for IM retention and management, which include: (1) Gateways, or (2) Enterprise Instant Messaging (EIM). Though e-mail is typically retained on back-up tapes and kept by employers in order to accurately comply with document retention policies, IM will not be retained without a specific program in place (unless the user affirmatively takes the step to save the conversation, but employers should not leave this task up to employees). The difficulty with tracing the use of IM when a retention program is not in place is apparent.

Gateways

If organizations choose to let employees use commercial IM products, such as AOL or Yahoo, retention is difficult to manage and control without the use of a gateway. A gateway, as used in the IM context, is a product that manages public IM traffic at the discretion of corporate IT. When using commercial products, a user may be able to turn on an archival mode so that his/her conversations can be saved, but this often has to be an affirmative step taken by the user.

It may make sense to give employees the freedom and capability to continue to use commercial IM products, but at the same time, organizations should take necessary steps to retain and archive those conversations. Gateways provide organizations with retention and auditing capabilities for commercial IM.

[G]ateway products...manage public IM traffic at the discretion of corporate IT, enabling management to test the network to find out what consumer IM

clients are being used, control use IDs, monitor use, in some cases block content in compliance with company policy, retain and store messages, and detect viruses among other features.

Akonix L7 is an example of a gateway that provides these services. In fact, Akonix Systems, Inc. issued a press release on December 5, 2006 urging organizations to retain its business in light of the amendments to the Federal Rules of Civil Procedure:

With amended Federal Rules of Civil Procedure for electronic storage that became effective on December 1, Akonix Systems, the provider of the most deployed IM security and compliance products in the world, advises companies to take action now to monitor and archive instant messages generated by employees' in order to remain in compliance with these new regulations. Organizations that cannot retrieve their employees' instant messages for legal discovery in a reasonable period of time run the risk of fines and legal actions.

The cost of Akonix L7 fluctuates with the size of the organization. For an example, it may cost around \$10,000 for an organization with around 100 employees. The yearly renewal fees are 20% of the start up costs.

Additional examples of gateways are: Symantec IMLogic, Facetime IM Auditor, and CipherTrust IronIM.

EIM Solutions

If organizations want more control over the use of IM, they should consider installing EIM tools. Essentially, EIM is an organizational IM product (as opposed to a commercial IM product) because an IM program is installed on the organization's server; the idea is for employees to use EIM tools in lieu of commercial products. This differs from gateways because gateways allow users to continue using their commercial products. EIM allows for "more granular control over functionality and usage." EIM tools come

with encryption capabilities, antivirus software, and other security features: “[EIM] also can enable IT to control user names, monitor content based on policy, and save and store messages.”

It is important to note that EIM tools are closed to external communication, which means that users cannot converse with someone who is using a commercial product. The hope is that once granted access to an EIM solution, employees will not want to use commercial products. However, some employees may still be inclined to download commercial products to talk to friends and family. Some EIM products attempt to block access to commercial products, but for similar reasons discussed above, savvy employees will likely be able to find ways around these restrictions. Therefore, when organizations consider whether to institute an EIM solution, they should be cognizant of the facts discussed above: many people use commercial IM products, and their use could actually benefit a company through increased efficiency (and morale).

IBM Lotus Sametime (Sametime) is an example of an EIM solution. Sametime costs \$56.75 per user, in addition to

the cost of the Sametime server, which is \$300.00 per “value unit” of the processor which runs the organization’s server. The “value unit” of a single processor is generally 50 or 100, depending on the specific brand and type of processor. Therefore, if the value unit is 100, the total cost of purchasing the Sametime server would be \$30,000.00 (\$300.000 x 100). The yearly renewal fee for the maintenance of Sametime is 20% of the initial costs.

Other examples of EIM solutions include: Microsoft Live Communications Server, IMiN, and JabberNow.

Conclusion

The use of IM is prevalent, and growing at a rapid rate. What once was a tool used by teenagers to gossip has become an effective means to conduct business. If organizations choose to embrace IM, use and retention policies should be established. Organizations are encouraged to include IM use as part of their E-mail and internet policies. [DH](#)

®, TM And SM—What’s The Difference?

(continued from page 5)

In order to protect your mark from infringement and/or becoming generic, it is necessary to police your mark. This can be done by periodically searching the internet, reviewing industry journals and chat rooms, as well as your competitors’ marketing materials and advertising. If you believe that your mark is being infringed, the first step is to issue a “cease and desist” letter. As stated earlier, while it is not necessary that your mark be registered in order to claim ownership and exclusive rights to the mark, it is certainly much more persuasive in any cease and desist letter to be able to claim registration. In addition, registration, whether at the federal or state level, is conclusive evidence of your right to use the mark either nationwide, if you

have registered your mark with the USPTO, or within the Commonwealth of Massachusetts, if you have only filed at the state level. If your product or services are limited to the Commonwealth, or a handful of states, federal registration may not be necessary. Further, in order to file an action for infringement, you must have registered your mark, either at the state level or federally. In order to prevent dilution and tarnishment of your mark, it is also important to make sure that any persons, such as affiliates, subsidiaries, distributors that have permission to use your mark, do so pursuant to a license agreement and agree to follow your rules regarding appropriate use and display of the mark. [DH](#)

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