

Business Update

The Legal Newsletter For Maine's Small Business Community

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Intellectual Property: Common Pitfalls At Closing

By Richard P. Olson

Intellectual property is the one of the fastest growing assets on the books of most American Corporations. In many instances it has taken the place of bricks and mortar as the key assets of the enterprise. Even with the striking devaluation of high technology companies of the past few years, intellectual property will continue to grow in importance.

The growth in the value and importance of intellectual property has brought on more legal fights over ownership as well as the meaning of infringement. The importance of clarity in intellectual property rights is becoming as important as rights to

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Breaking Up Is Hard To Do

By David J. Perkins

In a difficult economy, pressures and frustrations are likely to develop among shareholders of closely-held corporations. The result often is that either the majority shareholder wants to get rid of a minority shareholder or a minority shareholder feels oppressed by the majority. Ending a business relationship between shareholders in a closely-held corporation in Maine, however, presents substantial risks.

A. The Majority Shareholder View

In many cases, the majority or controlling shareholder feels that he or she is making the effort and providing the skills and leadership that create the value for the corporation. In good times, the majority shareholder may resent the fact that the minority shareholder is sharing in the increase of the value of the corporation's equity, when the growth is largely due to the hard work of the majority shareholder.

Likewise, in bad times, the majority shareholder may resent the lack of support from the minority shareholder in the fight to continue in business.

The most useful tool in this situation is to have a shareholders' agreement that has been executed by the shareholders at the outset of the relationship. This will allow either the majority shareholder or the minority shareholder to buy out the other party, once the relationship sours. If there is no shareholders' agreement, the majority shareholder can still cause the assets of the corporation to be sold, including a sale to a new entity controlled by the majority shareholder. Great care, however, needs to be taken to comply with the requirements of Maine corporate law.

The Maine Business Corporations Act, 13-A M.R.S.A. § 1003, provides procedures allowing a corporation to

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Highlights From 2001

Year 2001 was a dynamic year for Perkins Olson, P.A.

With the recession, our clients required substantial legal services in workout, bankruptcy reorganization and shareholder disputes.

David Perkins and Richard Olson served as debtor's counsel in the successful chapter 11 reorganization of the Sea Dog Brewing Company, which has brewery/restaurants in Topsham, Bangor and Camden. David Perkins also served as debtor's counsel in two successful chapter 11 reorganizations of nursing homes located in Millbridge and Patten, Maine.

During the year, Richard Olson represented the unsecured creditors committee in the Crowe Rope case. Recently, the Bankruptcy Court approved a sale of Crowe's assets to a new company, which plans to continue rope-manufacturing operations at the Winslow facility.

Our litigation practice was also very active during the year. David Perkins represented

International Paper Company in litigation with Lincoln Pulp & Paper regarding termination of supply contracts. The case was recently settled on very favorable terms to our client, and we gained very useful experience with forestry industry legal issues. Patrick Mellor has served as plaintiff's counsel in a lawsuit involving the breach of a log-home agency/sales agreement, which will come up for trial this spring.

David Perkins and Patrick Mellor represented the shareholder who retained ownership of the Sea Dog in a federal court security law and fraud case. We recently succeeded in defeating the bulk of the defendant's claims on summary judgement, and we are heading into a February trial.

Our real estate and land use practice has also been particularly busy. David Perkins argued before the Law Court in September on an

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David Perkins and Richard Olson deep in conversation between litigations.

real and personal property. In a number of transactions over the past year we have had instances where incorrect or inadequate documentation has threatened the closing of transactions by raising unwanted surprises

PATENTS

The U.S. Government and other governments grant patents. In the United States there are four basic requirements for a patent: (1) the inventor has a process, machine, manufacture or matter that is: (2) useful; (3) novel and (4) not obvious. Once the patent is granted the holder of the patent has the right to exclude others from making, using or selling it. Patents are registered with the U.S. Patent and Trademark Office (the "PTO").

To obtain rights in someone else's patent you must either buy it by taking an assignment or obtaining a license from the inventor. This raises the question of who else has a license or an assignment of the patent and some traps for the unwary.

Patents and a history of their assignments of the patent are recorded at the PTO which would initially seem to be sufficient; however, licensee rights may not be recorded. If you think you are taking an exclusive license, get appropriate representations and warranties from the owner/inventor and record your interest.

Another trap lies in the security interest of a lender or a taxing authority. Security interests of lenders may be recorded at the PTO; however, they are not required to be recorded at the PTO and are governed by state law concerning security interests in personal property. The prudent lender records its lien at the PTO, but it may still be protected even if it has only recorded at the appropriate UCC filing office.

Consider the following: Inventor obtains patent. IRS obtains a tax lien against all of Inventor's personal property and records at Maine Secretary of State. Inventor assigns Patent to NEWCO. Several years later you come along to buy the assets of NEWCO including its patent for the proverbial better mousetrap. After you buy, the IRS, moving at the speed of slow

Laurence Carroll Joins Firm



Laurence B. Carroll III's varied background and experience should be of particular benefit to commercial real estate, business transaction, and technology clients. Prior to joining Perkins Olson he worked in the naval nuclear power program, was a partner in Drummond Wolfe, and most recently served as in-house investments counsel for UNUM. Lanny earned a B.S. degree in Engineering and Applied Science from Yale University in 1967 and his law degree from Georgetown University Law Center in 1973.

molasses, finally catches up with the Inventor and the Patent and informs you that the patent—YOUR PATENT—will be the subject of an IRS sale to the public. "But, but, but..." you say and you hope that you have recourse against NEWCO and that NEWCO can pay your losses.

TRADEMARK/TRADENAME

Trademarks have rights under Federal law, state statutory law and common law. Your corporate name and logo are protected from infringement whether or not they are Federally registered—unless they infringe—but you gain certain protection through Federal Registration.

If you are establishing or acquiring a name or logo that will be valuable, you should know whether that name is registered. If it is not, does it infringe on any similar name or mark. Merely having your corporate name accepted by the Secretary of State does not mean that it does not infringe. The Secretary of State only checks to see if it is similar to names of existing corporations.

Having a registered trademark does not mean that no one else can use the same name. They probably can so long as there is no reasonable risk of confusion among customers. For example, the SPEEDY Sheetmetal Company and its Mercury symbol is not likely to be confused with the SPEEDY Funeral Home and its Mercury symbol. Additionally, the SPEEDY Sheetmetal Company of Biloxi is not likely to be confused with the SPEEDY Sheetmetal Company of Bath—although this latter case is not as clear if both companies

service national customers in the same general industry.

Just because you obtain Federal registration of your SPEEDY before the Biloxi SPEEDY does not mean you can stop the Biloxi SPEEDY from using the name if Biloxi has already been using it.

In each case, where a name or mark is important it is prudent to conduct a search to gauge your exposure before investing in the name or mark.

WEBSITES AND DOMAIN NAMES

Obtaining an assignment of a web site or a domain name is not technically difficult, but it is a closing item that often gets overlooked. Even more important in some cases are the content and the web site design. Many companies have failed to enter into clear agreements with web site designers that set forth who owns the content and design features of the site as well as the source code for maintenance and modification. If you are acquiring a web based business, you should be able to see a clear agreement with whoever designed the site as well as any content providers assigning all rights to the business you are acquiring. Otherwise you may find yourself with a useless domain name or site.

SOFTWARE LICENSES

Virtually every company is a party to a variety of software licenses from the ubiquitous office to work to adobe to specialized tracking and accounting software. Replacing these licenses can cost thousands of dollars and fail-

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Sensible Resolutions To Employment Issues

By Patrick J. Mellor



In uncertain times, issues related to employment law take on added significance. Our firm continues to advise clients, both management and labor, on employment-related legal issues. It is prudent for both employers and employees to be aware of Maine employment law with regard to severing the employment relationship.

“In Maine, it has long been the rule that a contract of employment for an indefinite length of time is terminable at the will of either party.” Larrabee v. Penobscot Frozen Foods, 486 A.2d 97, 99 (Me. 1984). Essentially, unless parties have a written contract to the contrary, an employer may terminate the employment relationship with or without cause. The parties to a contract may provide that the employer is not free to discharge an employee without cause, “but the intent to do so must be clearly stated.” Larrabee, 486 A.2d at 99-100. Therefore, the only exception to an employer’s legal right to terminate the employment relationship is through a contract that expressly restricts such a right and clearly outlines the methods by which the relationship must be terminated. Having said that, an employer must exercise caution in the use of any verbal commitments to its employees. For example: if an employer asks an employee to continue working for six months, and the employee forgoes an employment opportunity, in the

event that the employer subsequently fires the employee after two months, the employee may have a promissory estoppel claim against the employer for wages that he may have earned if he had sought an alternative employment opportunity.

EMPLOYEE HANDBOOK

While an employee handbook or a personnel policy is a good idea in terms of laying out rules of conduct that are expected or behavior that will not be tolerated, such a handbook is insufficient to restrict the employer’s common law right to terminate the employment. In other words, although the employee handbook may explain the method of termination that the employer intends to utilize, if the employer deviates from that method, it will not be deemed a violation of the employment relationship in a court of law.

LIMITATIONS ON RIGHT TO DISCHARGE

While the common law “employee at will” law appears to weigh the scales heavily in favor of the employer, the following is a list of various statutory limitations upon a Maine employer’s right to discharge an employee.

First, the Maine Human Rights Act prohibits an employee’s discharge that is based upon age, religion, race or color, sex, pregnancy, physical or mental handicap, ancestry or national origin, or for certain other reasons, except

where based upon a bona fide occupational qualification. The statute also prohibits discharge in retaliation for exercising rights thereunder. See 5 M.R.S.A. § 4572.

Maine also has a statute that prohibits discharge because an employee testifies or asserts a claim under the Maine Workers’ Compensation Act. See 39 M.R.S.A. § 111. Maine law also limits an employer’s right to discharge an employee when that discharge affects the “exercise or enjoyment . . . of rights secured by the United States Constitution or the laws of the United States or rights secured by the constitution of Maine or laws of the state.” See 5 M.R.S.A. § 4681, et seq. It is this portion of the Maine Human Rights Act that prohibits an employer from terminating the employment relationship due to the employee’s expression of among other things, religious and/or political views.

“No health care facility may require that any employee . . . submit to an HIV test or reveal whether the employee . . . has obtained an HIV test as a condition of employment or to maintain employment, except when based on a bona fide occupational qualification.”

Maine’s “whistle blower’s protection act” also protects employees who report, or refuse to commit, illegal acts from being discharged in retaliation therefor. The whistleblower’s act prohibits discharge when an employee acting in good faith, or a person acting on behalf of the employee, reports to the employer or a public body what the employee has reasonable cause to believe is a violation of local, state, or federal law. See 26 M.R.S.A. § 833.

There is a Maine law that also prohibits discrimination against an employee for serving in the state or federal military forces. In this time of significant U.S. military involvement both at home and abroad, it is important for all parties to be aware that our citizens in the service may not be pun-

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ished for serving their country. See 26 M.R.S.A. § 811, et seq.

Maine law prevents a discriminatory discharge of an employee for filing a complaint concerning violations of occupational safety or health standards or for testifying or exercising related rights. See 26 M.R.S.A. § 570.

This list represents only a portion of the various statutory limitations upon a Maine employer's right to discharge.

RECORD KEEPING

Common sense will go a long way to preventing controversy down the road should termination become necessary. Keeping complete records of absenteeism, lateness, misconduct, and other actions or inactions that are detrimental to a business is essential from an employer's perspective. Similarly, as an employee, if you believe that an employer has inaccurately assessed a situation in a writing that is now in your file, you should challenge the accuracy and validity with a description of the event in question and submit it to your employment file at work as well as at home. It is worth noting that these types of "reports" are more likely to be admissible in court if they are kept reg-

ularly in the ordinary course of business. An individual's journal or document recorded close to the time of the "event" is more likely to be admissible than a summary written weeks after the event.

In addition, as an employer it is essential to enforce rules consistently and with uniformity. Obviously, all employees will not be treated exactly alike due to the realities of workplace hierarchy, etc. However, similarly-situated employees should be treated similarly in order to avoid any appearances of discriminatory application of rules. Important from both an employer and employee perspective is to have a witness to the alleged conduct sign the report that has been created by either the employer or the employee. Both sides will need a witness to corroborate their story.

DO NOT RUSH TO JUDGEMENT

When a controversy arises in the workplace, management must keep an even keel and approach the issue in a way that the parties view as unbiased. In the event the termination of employment becomes necessary, it is prudent for an employer to suspend the employ-

ee pending an investigation so that upper management can review the situation thoroughly and determine what course of action is appropriate. This review period gives the situation a cooling-down effect and allows other employees to see that the situation is being dealt with responsibly and that all members of a business entity are entitled to be treated with respect. Also, it is not uncommon for an employee to act out when told to perform a certain duty that may be in violation of a state or federal law. In such a case, an immediate discharge would simply expose the employer to further liability for wrongful termination rather than resolving the matter.

Our firm has a successful track record in assisting management and labor with matters related to employment law. We hope you will continue to look to us for answers, clarifications, and positive results with your employment-related matters.

The National Business Institute's 2001 text entitled *Advanced Issues in Maine Employment Law* was utilized as a resource in writing this article.

Highlights, continued from page 1

appeal of a substantial jury verdict that we obtained on a Belfast road dispute case.

On the business and corporate side, Richard Olson represented the company, which acquired the assets of Maine Poly, Inc. The new company will resume Maine Poly's operations in Greene, Maine and will re-employ a substantial number of people in that area. David Perkins represented Angustura International/World Harbors in the acquisition and financing of a large food sauce-manufacturing center in the Auburn business park.

Lanny Carroll, who joined the firm in the spring, has used his substantial legal experience from prior real estate practices at Drummond Woodsom and UNUM to handle a number of real estate acquisitions, leasing arrangements and land dispute issues.

As always, we enjoyed working closely with all our clients to resolve difficult legal problems and to help plan for future successes.

Intellectual Property, continued from page 2

ing to comply with the terms of the licenses can subject the owner/user to thousands of dollars in damages payable to the software company.

Companies frequently cut corners on licenses with the most common violation occurring where the company has fewer licenses than it has users or it has fewer "latest edition" licenses than it has actual users.

In the acquisition of a company where the software is important, it is worth undertaking a software audit as part of your due diligence. If you are not tech savvy yourself, have it done by your IS staff or an outside consultant. There should be a license for the latest version used by the company of each type of software for each person using it or you will need to spend additional post-closing dollars purchasing it.

If the software was developed by the company or "owned" by the company the sellers should be able to provide you with evidence of their ownership and inform you whether they are the exclusive owners or sharer and should be able to provide you with the source code for future maintenance.

CONCLUSION

Despite a slowing tech economy, intellectual property will continue to increase in importance to business and the prudent purchaser or lender will need to expand their traditional notions of due diligence.

sell its assets. The majority shareholder can use his voting power to cause the board of directors and the shareholder body to require that the assets of the corporation be sold. This can include the sale of the assets to a new corporation formed by the majority shareholder. The sale must be authorized by the board of directors, written notice of the meeting must be given to all shareholders, and a vote of the shareholders must also authorize the sale.

Any shareholder has the right to dissent from the sale pursuant to 13-A M.R.S.A. § 1005. In the case of dissent, the shareholder is entitled to be paid the fair value of his shares determined as of the date prior to the date on which the shareholders or the directors voted for the sale. To preserve this right to dissent, the shareholder has to file with the corporation prior to the meeting of the shareholders his written objection. Once the dissent is timely provided, the corporation has a duty to give written notice to the dissenting shareholder with a written offer to the dissenting shareholder to pay such shares at a specified price deemed by the corporation to be the fair value. If the parties cannot agree on the value, then the corporation can be required to bring an action in the Superior Court to determine the value of the stock.

The important point is that the majority shareholder can end the relationship with the minority shareholder by causing the assets to be sold. The majority shareholder should ensure that there is a competent and independent valuation completed prior to the sale to support the price paid to the minority shareholders. However, even if the minority shareholders dissent, the sale can still proceed with the issue of the fair value of the stock to be determined by negotiations and/or litigation.

While this procedure will work well in many cases to get rid of troublesome minority shareholders, the majority shareholder has to take great care to ensure that he or she complies with his or her fiduciary duties to all



shareholders. Maine law, 13-A M.R.S.A. § 716, requires: “The directors and officers of a corporation shall exercise their powers and discharge their duties in good faith with a view to the interests of the corporation and of the shareholders and with that degree of diligence, care, and skill which ordinarily prudent men would exercise under similar circumstances in like positions.”

Corporate officers, directors, and shareholders in closely-held corporations bear a duty of loyalty to the corporations they serve. Corporate fiduciaries in Maine must discharge their duties in good faith with a view toward furthering the interests of the corporation. They must disclose and not withhold relevant information concerning any potential conflict of interest with the corporation, and they must refrain from using their position, influence, or knowledge of the affairs of the corporation to gain personal advantage. See *Rosenthal v. Rosenthal*, 543 A.2d 348, 352 (Me. 1988); 13-A M.R.S.A. § 716. While the “business judgment” rule generally prevents courts from second guessing honest business decisions, courts will intervene where fraud or bad faith is present.

At a minimum, the majority shareholder must disclose to the other shareholders that the majority shareholder is controlling the new corporation that is buying the corporation’s assets, all shareholders must receive notice of the proposed sale, alternative buyers must be considered, and the majority shareholder must take great

care in disclosing the value of the assets being sold and the method by which the value was determined.

B. The Minority Shareholder View.

Not surprisingly, the minority shareholder suffers a different set of problems. In the case of the minority shareholder, the most common problem is that the minority shareholder cannot force the corporation or the majority shareholder to buy out the interests of the minority shareholder, unless that right is set forth in a shareholders’ agreement or bylaws. This can create a very frustrating situation when a minority shareholder invests in a corporation and then has to sit by helplessly as the majority shareholder pursues his or her own agenda over a lengthy period of time.

While the minority shareholder cannot force an honest majority shareholder to buy out the minority shareholder, Maine law provides a remedy to the minority shareholder who is dealing with a dishonest or self dealing majority shareholder. A court may dissolve a corporation at a shareholder’s request when: “The shareholders are so divided respecting the management of the business and affairs of the corporation that the corporation is suffering or will suffer irreparable injury or the business and affairs of the corporation can no longer be conducted to the advantage of the shareholders generally. . . .” 13-A M.R.S.A. § 115(1)(C). Derivative actions (actions filed in the name of the corporation by a shareholder) can be filed based on waste and/or serious mismanagement.

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Where there is blatant self dealing by the majority shareholder in the face of shareholder dissension over management, courts will be inclined to dissolve or exercise other remedies allowed under the Maine Corporations Act. See *Thompson's Point, Inc. v. Safe Harbor Development Corporation*, 862 F.Supp. 594 (1994).

Under the Business Corporations Act, the court has a number of remedies available to it. The court can (i) appoint a receiver to take over the management of the corporation; (ii) require that the minority shareholder's stock be purchased by either the corporation or the other shareholders; (iii) require that the assets of the corporation be sold to a single purchaser, and/or (iv) cancel or alter any provisions of the articles of incorporation or bylaws. See 13-A M.R.S.A. § 1123.

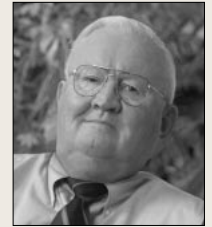
The decision as to whether to dissolve a corporation or to provide other relief to a minority shareholder is solely within the discretion of the Superior Court. Again, it is critical to protect the shareholders' interests by providing contractual means of ending the business relationship through a shareholders' agreement at the outset of the relationship.

CONCLUSION—Our firm has frequently been on both ends of the majority shareholder/minority shareholder relationship breakdown. Difficult shareholder relationships can be ended efficiently. Liabilities can be avoided. At the same time, if the appropriate steps are not taken, the management of the corporation can be disrupted and officers, directors, or shareholders can face individual liability.

We at Perkins Olson, P. A. want to provide you with high quality, reasonably priced legal services that will add value to your business. With this depth of talent we can help your firm prosper as well as resolve any difficulties that you may encounter.



Clients place confidence in Don Perkins' ability to guide estate planning, as well as to handle divorce involving substantial assets. He also specializes in business and administrative matters, where his four-decade experience provides a distinct advantage to clients. Clients



turn to Dave Perkins for expertise in starting up or financing businesses, reorganizing distressed businesses, litigating business and environmental disputes, and solving problems that arise in almost any commercial or real estate venture. Knowledge and experience help



Richard Olsen move quickly on questions involving a wide variety of business reorganizations and bankruptcies—from traditional manufacturing firms and real estate

concerns to high tech companies. Patrick Mellor specializes in business law, civil litigation, maritime law, and appellate work. He is a former University of Maine Law School writing instructor and a former law clerk. Lanny Carroll's varied background and experience benefits commercial real estate, business transaction, and technology clients.



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