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The Importance of Performing a Trademark Search for Your Company's Product or Service Name

By Peter R. Hurm, Esq.

A common legal problem occurs when a company uses its trade name or another name in connection with the sale of its products or services without performing a formal trademark search to determine if that name is already being used by another company. Oftentimes, the name the company uses or intends to use infringes on the trademark of another business. In such case, that company will typically receive a cease and desist letter notifying it to refrain from using the name. Even worse, a lawsuit for trademark infringement might be filed against the company seeking monetary damages. In either event, your company may want to conduct a trademark search before it spends a great deal of time, effort and money on marketing and developing goodwill for your business. Although a formal trademark search is not foolproof, it will certainly help your company determine whether or not the name it intends to use is already taken by another company.

What Constitutes a Protected Trademark

Under federal law, a trademark is any word, name, symbol, device or combination of such items used to identify goods, to distinguish such goods from those manufactured or sold by others and to indicate the source of the goods. A service mark is any word, name, symbol, device or combination of such items used to identify the services of a company, to distinguish such services from the services of others and to indicate the source of the services. For purposes of this article, the term trademark is used to represent both trademarks and service marks. A trademark is not a copyright or a patent. A copyright protects an artistic or literary work and a patent protects an invention. A trade name is any name used to identify a business or vocation. A company will always have a trade name for the legal entity itself, but if that trade name is not also used as a brand in connection with the sale of a company's products or services, it is not a trademark and is not entitled to trademark protection.

The purpose of a trademark is to prevent confusion among consumers regarding the source

and origination of goods or services; in other words, a trademark enables consumers to determine the manufacturer of certain products or the provider of particular services. A company can prevent another company from using a name if that name is likely to cause confusion as to the source of a product or a service. In general, a trademark does not infringe on another trademark if the products or services of the two companies are not in competition with one another and are not sold through the same trade channels. As a result, often you will see two trademarks that are similar or even the same; however, both marks may be used at the same time and both are subject to trademark protection because they are different products or services that wouldn't cause public confusion as to the manufacturer of the products or the provider of services. An exception to this general rule is for "famous" trademarks such as "Coca Cola" or "Kleenex".

Under federal trademark law, a famous trademark may not be used by another party even if the products or services are unrelated because that famous trademark is protected against its dilution in value by another company creating or providing a lower quality product or service that is mistaken by the public to be associated with the famous trademark. There is no bright line test for determining when a trademark becomes "famous"; rather, it is based on the facts and circumstances of each case.

Generally, a name is only entitled to trademark protection if it is distinctive and capable of distinguishing one company's products or services from those of another. A name or term that simply describes a company's products or services generally is not entitled to trademark protection. For example, a company that develops computer software would not be entitled to trademark the name "software" by itself because such term does not distinguish its products from those of other software developers.



Peter R. Hurm, Esq.

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Update on Tax Law



Dean I. Friedman, Esq.

New Tax Law Keeps S Corporations All in the Family

By Dean I. Friedman, Esq.

The *American Jobs Creation Act of 2004 (AJCA)* adds new rules to the Internal Revenue Code which make the use of S corporations more attractive than in the past. Many of our closely-held business clients prefer to use S corporations to save on taxes. S corporations are popular because conducting business in corporate form provides creditor protection (limited personal liability if the corporation is properly organized, capitalized and operated) and a *single* level of income tax on net profits.

Since 1996, an S corporation can have as many as 75 shareholders. Under the AJCA, the maximum number of shareholders is increased to 100 (effective for S corporation taxable years beginning after December 31, 2004). While most S corporations actually have 10 or fewer shareholders, the new rules may be helpful to companies looking to raise capital (provided the investors otherwise qualify as S corporation shareholders). There are planning opportunities available to exceed this number when necessary.

Even better, when counting to 100, all family members may elect (any family member can make the necessary filing which remains in effect until terminated) to be treated as one shareholder! All that is required is a common ancestor. The common ancestor may not be more than six generations removed from the youngest generation of shareholders who would be members of the family at the later of the time the S election is made or the effective date of the new rules. For this purpose, S corporation stock held in a qualified subchapter S trust (QSST), such as a marital deduction trust (QTIP) under the typical revocable living trust of a married couple following the death of a spouse, or an electing small business trust (ESBT), such as a credit-shelter trust or Bypass

Trust under such a living trust, can qualify. Also, spouses of shareholders or former shareholders are considered family members and are assigned to the same generation as the family member shareholder to whom she or he is (or was) married. Clarification is needed about the consequence upon the new rule of the estate of a deceased family member (other than a spouse) holding shares.

This new single-family rule will also be of great benefit to closely-held businesses seeking to continue as S corporations within a group of lineal descendants notwithstanding the expansion of that class as children, grandchildren and great-grandchildren are born or adopted or as marriages occur. Moreover, since family members occupy only one slot, key employees and managers may also participate through various incentive arrangements which we can design. However, the *Uniform Statutory Rule Against Perpetuities* (California Probate Code §21200 *et seq.*) may restrict the use of long-term or "dynasty" trusts (vesting or terminating after creation no later than 21 years after the death of an individual then alive or 90 years). Of course, appropriate shareholder and buy-sell agreements should be carefully crafted to deal with ownership of S corporation shares among the growing number of owners.

Please call us with questions or if you want to discuss how the new S corporation shareholder rules may benefit planning for the succession of your company.

Dean I. Friedman is certified by the California State Bar as a specialist in taxation law. His practice includes a broad range of federal, state and local taxation law matters. He may be reached at dfriedman@clarktrev.com.

Announcements

Donald P. Clark recently was named to the Board of the Pasadena Symphony Association.

Judith Ilene Bloom authored an article titled "Bad Compromises" that discusses the weakness in certain settlement procedures used in civil cases. It was published in the November 2004 issue of *Los Angeles Lawyer* magazine. Call C&T if you would like a reprint.

Trademark Search for Your Company's Product or Service Name

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Avoid A Trademark Conflict

In order to prevent trademark infringement, a formal trademark search should be performed prior to using a name in commerce. There are a number of companies that provide formal and detailed trademark conflict searches in which a variety of databases and information sources are reviewed to determine if a name or mark is already being used. These searches are typically ordered by a company's legal counsel and then reviewed by him or her to determine if there is a potential trademark conflict with another company's name or mark. The shortcoming of a formal trademark search is that one can never be 100% sure that there are no trademark conflicts after doing a search because trademark rights are established through use of the trademark and not necessarily by registering with the United States Patent and Trademark Office or some other type of filing or notice. As a result, a company could be using a name in interstate commerce without ever making any type of formal filing and such trademark might not be discovered in a formal trademark search. Although not perfect, a formal trademark search is the best way to determine if another party is using your proposed name.

It should be noted that filing and obtaining a business entity name such as for a corporation or limited liability company with a state agency such as the California Secretary of State does not mean that the trade name does not violate the trademark of another company. The California Secretary of State does not perform a trademark conflict search when a company is being formed; rather, the Secretary of State only determines if another entity has the same or confusingly similar name on file with it. As a result, it is generally recommended that a trademark conflict search be performed if a company intends to use its trade name to also serve as its brand in connection with the sale of its products or services.

Protect Your Company's Product or Service Name

As noted above, a company will typically receive a cease and desist letter requesting it to refrain from using the name or mark at issue after the person having prior rights in the trademark discovers the conflict. A lawsuit can also be filed and monetary damages awarded if actual trademark infringement has occurred. Since there can be a significant period of time before you are notified of a trademark conflict and since your company may have already spent significant sums of money to market its name and develop goodwill in its product or services, it could be disastrous to have to start all over again with a new name. Therefore, in order to prevent trademark infringement, it is generally advisable to conduct a formal trademark search prior to using a proposed name for your company's products or services. If the name proves to be available

and is to be used in interstate commerce, the name should be registered as a federal trademark with the United States Patent and Trademark Office to provide notice of your company's use of the trademark as well as to establish a legal presumption that your company owns the name and is using it as of a certain date.

Peter Hurm practices corporate transactional law, including business finance, mergers and acquisitions, intellectual property protection and general business matters. He may be reached at phurm@clarktre.com.

New Requirements for Nonqualified Deferred Compensation Plans – Existing Plans Must Be Reviewed

On October 22, 2004, President Bush signed the American Jobs Creation Act. The new law, which applies to existing nonqualified deferred compensation ("NQDC") plans as well as future plans, imposes numerous new requirements on NQDC plans. If these requirements are not satisfied, amounts deferred after December 31, 2004 become taxable to the participant with interest and penalties. The IRS is required to issue regulations within 60 days of enactment to provide a limited period in which NQDC plans may be amended to conform to the new requirements, frozen or terminated. Annual reporting of deferred compensation amounts to the IRS will be required even if not currently taxable to the participant. The effective date is otherwise January 1, 2005.

Please contact us to discuss the requirements of the new law if your company has an NQDC plan or similar compensation arrangement with employees. *Robert F. DeMeter may be reached at rdemeter@clarktre.com and Dean I. Friedman may be reached at dfriedman@clarktre.com.*

Two CPE Seminars

Cutting Edge Strategies for Business Sales and Acquisition

Clark & Trevithick will collaborate with **Bernstein Investment Research and Management** to present two complimentary CPE seminars in the Los Angeles area in January. The dates, times and locations of these programs will be announced on the seminars page of our website on or before December 15, 2004.

Clark & Trevithick frequently hosts seminars for business owners and professionals who advise them. Many of these qualify as continuing education for CPAs and attorneys. To find out more about these upcoming events or register to attend, log onto our web site at www.clarktre.com and click on the seminars link or call

Elizabeth Anderson at (213) 341-1340.

C&T Welcomes Scott D. Page



Scott D. Page, Esq.

Clark & Trevithick is pleased to announce the addition of a new associate, Scott D. Page, who joined the C&T Corporate Law Department in October. Scott specializes in general corporate law and business transactions, including mergers and acquisitions, private placements and other corporate finance matters, and general partnership matters. He has experience representing large corporations and emerging growth companies in diverse fields, including companies involved in the energy and power industry, distribution and manufacturing companies and technology companies, and in every phase of their business life cycles.

Prior to joining Clark & Trevithick, Scott practiced for four years as a corporate attorney at a national law firm and as in-house counsel for a publicly-traded company. Scott graduated from UCLA in 1993 with a bachelor's degree in Political Science. He received his law degree from the University of Texas at Austin in 2000. Scott is also a Certified Public Accountant and worked for four years in the audit practice of a former "Big Five" accounting firm.

Upcoming Event

Executive Briefing On Legislative Changes In 2005



Philip W. Bartenetti

Philip W. Bartenetti, Leonard Brazil and Michael K. Wofford invite you to attend an Executive Briefing Reception entitled *Changes in Corporate, Litigation and Employment Law That Will Affect How You Do Business in 2005*.

Two receptions will be held in Clark & Trevithick's office at 800 Wilshire Boulevard, Twelfth Floor, Los Angeles, California 90017. Choose either the late afternoon session on **Thursday, January 20, 2005** from 5:30 p.m. to 7:00 p.m. or the early morning session on **Tuesday, January 25, 2005** from 7:30 a.m. to 9:00 a.m.



Leonard Brazil

The Executive Briefing is designed to give Chief Executive Officers, Chief Financial Officers, Chief Operating Officers and Human Resource Managers practical information about recent legislation in corporate, litigation and employment law. Continuing education credit will be available to CPAs and attorneys, although the information presented should be valuable to anyone who conducts business in California. Our *Legal Issues* readers, clients and friends are welcome.

To register for one of the Executive Briefing Receptions, please call (213) 341-1313 or contact Liz Anderson at (213) 341-1341.



Michael K. Wofford

Coming in the next Legal Issues!

Changes in the Law Update for 2005

CLARK & TREVITHICK

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Feedback/Faxback

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