

Legal Briefing

HK&C Helps Halt Counterfeiting

by David Christopher Baker, Esq.



If you manufacture widgets (or any other marketable goods), one of your worst nightmares would be to find those goods, bearing your valuable trademarks, your distinctive trade dress, and even your own serial numbers, for sale on eBay or another website without your authorization. Worse yet, would be to find out those goods were not manufactured by your company, but, instead, were counterfeit. Unfortunately, this experience is becoming more commonplace as domestic manufacturers contract with overseas companies, especially Chinese companies, to manufacture those goods abroad and ship them back to the U.S. In the most egregious situations, the goods are manufactured by the very company authorized to make them and then sold to unscrupulous third parties as counterfeit goods. This very scenario recently played out with one of the firm's well-known automotive parts manufacturers.

Under such circumstances, a company's options are limited. The production, marketing, and sale of counterfeit goods within the U.S. by a U.S.-based company can be hard to stop, but certainly not impossible, and usually involves the participation of local authorities, federal authorities when federal crimes are involved, and the U.S. judicial system. Filing a complaint

and obtaining a temporary restraining order or injunction can quickly induce a counterfeiter to stop. It is the first step in bringing the counterfeiters to justice and holding them accountable to rightful owner of the goods and the associated intellectual property. However, these options are not as readily available when the goods are being offered for sale over the Internet, the goods themselves are being manufactured in China (or another foreign country), and those involved are careful to avoid being located.

In this case, HKC worked closely with the client, inventoried the offending goods, researched the websites where the counterfeits were being sold, confirmed the companies behind them, tracked down the individuals associated with those sites, and unleashed a "cease & desist" letter on all of them. The letter detailed the evidence, cited the applicable trademark and copyright registrations as well as the client's rights and supporting case and statutory law, and outlined the next steps that would be taken to pursue the counterfeiters. Within 48 hours of delivery of the demand letters, the websites had been taken down, the offending goods had been removed from eBay, and, more than likely, the counterfeiting problem had been solved.

Unfortunately, there is no guarantee that counterfeiting will not be a problem for our client in the future. However, by taking appropriate preventative measures, such as properly registering their intellectual property, closely monitoring the sales of their goods, and acting quickly and decisively, in close contact with their attorneys upon discovery of the counterfeiting, they were able to stop it.

These counterfeiters know not to mess with our client and to focus their illegal conduct on less vigilant companies.

David Baker is a Partner with Hart, King & Coldren. His practice includes litigation and transactional work in the areas of intellectual property, business and real estate law. He may be reached at dbaker@hkclaw.com or 714-432-8700 x. 344.

HK&C Victory in Trust Case

by Richard P. Gerber, Esq.

On the third day of a complicated trust trial, HK&C recently negotiated a favorable settlement for our client. The client was accused by the Trustee of a family trust of taking unfair advantage of her spouse by being named by her husband as a joint tenant on the husband's residence at a time when he allegedly lacked mental capacity and was susceptible to undue influence.

Additionally, the Trustee alleged that when the residence was sold, our client forged the husband's name on the sale proceeds check. The Trustee filed a Trust Petition in Probate Court to recoup the residence sale proceeds from our client and return them to the family trust.

As our client's expert witness was about to take the witness stand, the case settled. Pursuant to the settlement, our client retained all of the proceeds from the sale of the residence, plus the Trustee paid our client an additional sum which covered her attorney fees incurred during her defense.

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Raising Capital in Private Placements: A Lesson for Business Owners

by Eric M. Willens, Esq.

In today's challenging economic environment, where credit remains tight, more and more business owners are turning to non-traditional financing sources to raise capital. While friends and family, angel investors and venture capitalists may offer an attractive alternative to bank lending, business owners need to be aware of and carefully navigate the regulatory framework that applies when raising capital in the private equities markets.

The Securities Act of 1933 and the securities laws of most states require that all offers and sales of securities be registered unless an applicable exemption from registration is available. All transactions in securities sold to raise capital must therefore be registered, or exempt, under both federal and state law. The term "security" has a broad definition, and includes every type of stock or other equity interest in a corporation, most limited partnership interests (and in some cases general partnership interests), and often includes membership interests in a limited liability company. Promissory notes, bonds, debentures, and other forms of indebtedness sold to individual investors, venture capitalists and other persons who do not engage in the business of lending money are also treated as securities.

Registration is an expensive and complex process. Small and emerging companies attempt to avoid this process by raising capital through offers and sales that are exempt from federal and state registration. These offerings have come to be called "private placements," since they may not be made publicly or by general solicitation or advertising.

The most commonly-used federal

exemption for private placements is Rule 506 under Regulation D. Rule 506 has been adopted by the SEC as a non-exclusive safe harbor rule to facilitate compliance with the requirements for the private offering exemption of §4(2). If an offering of securities is effected in accordance with all the terms and conditions of Rule 506, the transactions will be deemed to be "transactions by an issuer not involving any public offering." Furthermore, a private placement conducted in compliance with Rule 506 is not subject to state registration requirements. This is a great advantage since Rule 506, unlike other federal exemptions, obviates the necessity to conform the offering to an exemption from state registration.

Rule 506 requires that sales be made only to accredited investors (as that term is defined by Regulation D), or to non-accredited investors that the company reasonably believes have such knowledge and experience in financial and business matters, either alone or with one or more purchaser representatives, that they are able to evaluate the merits and risks of the prospective investment. There may be no more than 35 purchasers, except that accredited investors will not count against the 35-purchaser limit.

Rule 506 requires compliance with the information requirements, limitations on the manner of offering and obligation to restrict resales as specified in Rule 502 of Regulation D. Under Rule 502, the company must exercise reasonable care to prevent resales of the securities until another exemption from registration becomes available to the purchaser. Neither the company nor any person acting on its behalf may offer or sell securities through any form of general solicitation or general

advertising, which includes publication in newspapers, magazines or similar media, broadcast by television or radio, or seminars to which attendees are invited by a general solicitation.

Rule 502 also requires the company to provide potential purchasers the same type of information, in general, as would be contained in a registration statement filed with the SEC. The specific information required by Rule 502 is not required for offers or sales made solely to accredited investors however.

HK&C's Corporate Finance and Securities Transactions group has years of experience in private placements and other securities transactions.

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"Listen & Learn" Webinar



From L to R: David Baker, Andy Tompkins and Brian Kinder

HK&C Intellectual Property attorneys David Baker and Brian Kinder recently interviewed ASR Show Director, Andy Tompkins, for the firm's "Listen and Learn" webinar series. Andy shared his views on the state of the action sports industry and the most effective way to maximize the ASR show experience. For more information on upcoming webinars, please contact Karen Koenes at kkoenes@hkclaw.com.

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