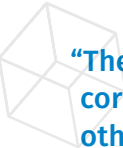

SELECTING AND PROTECTING YOUR COMPANY'S LEGAL NAME



“The name of a corporation, LLC, or other business entity is one of a business’ most valuable assets.”

The name of a corporation, LLC, or other business entity is one of a business’ most valuable assets. It can affect the business’ sales, reputation, and even its chance for success. Therefore, one of the first and most important decisions the owners or managers of a corporation, LLC, or other business entity must make is deciding on a name.

However, that may not be as easy a task as it may seem. First, the people choosing the name have to ensure compliance with the various laws that restrict business entity names. Second, they have to ensure that all necessary steps are taken to protect the rights to their company’s name.

This white paper will assist with these tasks by discussing the laws that govern name selection and protection and by describing how a business entity acquires, maintains, and enforces rights to its legal name.

BUSINESS ENTITY LAWS AND LEGAL NAME SELECTION

What Is a Legal Name?

A “legal name” is the name that appears on the formation document of a corporation, LLC, LP or other statutory business entity. The name appearing at the time of formation is its original legal name. A business entity may change its legal name as often as it desires during the course of its existence.

However, it can have only one legal name at any given time.

Statutory Restrictions on Legal Name Selection

The owners of a corporation, LLC, or other entity cannot choose any legal name they want for their company. They have to take into account restrictions imposed by the statute under which the entity will be formed. These restrictions deal with three issues: required words, prohibited words, and name availability.

Required Words: Most business entity statutes require the name set forth in the formation document to contain a specific word, phrase, or abbreviation indicating the type of entity it will be. For example, a corporation statute may require the name of a corporation to contain the word “corporation”, “incorporated”, or “company”, or an abbreviation of one of those words.

Prohibited Words: Many business entity statutes prohibit the use of certain words or phrases in legal names. Mainly this is to prevent the public from being misled as to the type of

continued on page 2

business entity it is dealing with. Thus, for example, an LLC may be prohibited from using the word “corporation” in its name.

Another reason is to prevent the public from being misled as to the function being performed by a business entity. Consequently, a business entity may be unable to use a name containing a word such as “bank” unless the business entity is in the banking industry.

Name Availability: Most business entity laws provide that the name a business entity is formed under must be available for its use. To be available, the name must not conflict with the name of another domestic or foreign entity appearing in the filing office’s records. Some statutes provide that a business entity’s name may not conflict with the name of another of the same type of business entity. Others prohibit conflicts with the names of all types of business entities that file with the state.

Filing Office Rules for Determining Legal Name Availability

Upon receiving a formation document for filing, the filing office will search its database to see if the legal name set forth on the document is available. If it is not, the formation document will not be filed.

Each filing office has its own rules and regulations for determining what makes one name distinguishable from another. As a result, two names may or may not be considered conflicting if the only difference is, for example:

- ▶ One name is singular and the other plural
- ▶ One is in uppercase and the other lowercase
- ▶ The names have different entity indicators or domain name extensions
- ▶ The names differ in punctuation, geographical terms, or symbols

Foreign State Law and Legal Name Selection

A corporation, LLC, or other statutory entity that transacts business in a state outside of its formation state must qualify to do business in that state. The state statutes require the name of a qualified foreign business entity to meet the same requirements as a domestic business entity. If the legal name does not comply—say, for example, because there is a conflict—the business entity will typically have to qualify and do business under a compliant fictitious name.

TRADEMARK LAWS AND LEGAL NAME SELECTION

What Is a Trademark?

A trademark is a word, symbol, phrase, or design used to identify a particular manufacturer’s or seller’s products and to distinguish them from the products of others. A service mark is the same as a trademark except it identifies and distinguishes services. (The terms “trademark” and “mark” are frequently used to include both trademarks and service marks.)



“A business entity that uses its legal name as a mark may prevent another entity or individual from infringing upon that name.”

A business entity’s legal name is not necessarily a mark. A mark identifies a business entity’s goods or services. A legal name identifies the business entity itself.

However, a legal name may be a mark if it is used in commerce to identify the business entity’s products or services.

How Do Trademark Laws Affect Name Selection?

Trademarks are governed and protected by federal statutes, state statutes, and common law. These laws impact business entity name selection in two main ways. First, the business entity’s owners will want to select a name that does not infringe upon someone else’s trademark rights. Secondly, not all marks qualify for protection under the trademark laws.

Therefore, if the legal name is going to be used as a mark, the owners will want to select a name that will qualify for protection.

Avoiding Infringement: A mark’s owner can prevent others from subsequently using an identical or similar mark where that use is likely to confuse or deceive the public. This use is generally referred to as trademark infringement.

The penalties for trademark infringement are severe. Therefore, avoiding infringement is important. A useful first step is to conduct a trademark search. This step is designed to uncover any names or marks already in use that are identical or similar to the desired legal name and that could create trademark problems for the business entity should it use that particular name.

continued on page 3

Selecting a Name that Qualifies for Trademark Law

Protection: Not every mark qualifies for protection under the trademark laws. There are certain requirements that must be met. For example, to be fully protected by the trademark statutes a mark must be “distinctive”—meaning that it is capable of identifying the source of a particular good or service. Consequently, a business entity that intends to use its legal name as a mark may wish to select a distinctive name.

BUSINESS ENTITY LAWS AND LEGAL NAME PROTECTION

How the Availability Requirement Protects Names

When a business entity is formed, its legal name becomes unavailable. No other business entity (of the same type only or of the same and other types depending upon the governing statute) may be formed or qualified in the formation state under that name. In addition, no other business entity may change its name to that name, nor may that name be reserved or registered. As a result, the state business entity laws protect the legal names of domestic entities through their name availability requirement.

Name Reservation

A step that is often taken before filing a formation document is to confirm that the chosen name is available. Once confirmed, some people will want to begin using the chosen name of the corporation, LLC, or other entity immediately.

However, a confirmation of availability from the state's filing office does not provide protection. The name remains available to any other business entity. There are many examples of business owners that invested a significant amount of time, effort and money on a name they thought was available, only to find that by the time they filed their formation document, another entity had taken the name.

In order to avoid this situation most business entity statutes permit a domestic business entity to reserve a legal name for a short period of time. The name reservation period varies depending upon the statute, although 120 days is the most common period. The effect of a name reservation is that another business entity may not form or qualify under, change its name to, reserve or register the name while the reservation is in effect.

Protecting a Legal Name in Foreign States

Some owners of corporations, LLCs or other entities may plan on expanding their businesses into different states in the near or distant future, and they will want to qualify under and use their company's legal name in those states. If they will be qualifying a short time after confirming their name's availability in the foreign state, they may file a name reservation with that state's filing office.

However, if they do not plan on qualifying for a number of months or years, they may be able to file a name registration.

Name registration is a device found mostly in corporation statutes that allows an entity to preserve the right to its legal name in a foreign state in which it has not yet qualified. A name registration is intended to provide long term protection. The registration is generally effective for one year and is renewable indefinitely.

TRADEMARK LAWS AND LEGAL NAME PROTECTION

How Do Trademark Laws Affect Name Protection?

If a legal name is going to be used as a mark, its owners will want to take full advantage of the protections of the trademark laws. Obtaining this protection generally means taking the following steps:

- ▶ Registering under federal or state trademark laws
- ▶ Making sure trademark rights do not lapse
- ▶ Enforcing trademark rights when improper use is detected

Registering a Trademark

Trademark rights are acquired in two ways. One is by being the first to use the mark in commerce. The other is to apply for federal or state trademark registration.

Federal registration is accomplished by filing an application with the United States Patent and Trademark Office. It provides certain benefits beyond those provided by common law such as creating a nationwide presumption that the trademark is valid, giving the registrant the right to use the trademark nationwide, enabling the registrant to bring an infringement suit in federal court, and allowing the recovery of treble damages and costs under certain circumstances.

continued on page 4

In addition, all states permit marks to be registered with a state agency. This provides protection in that state. State registration is useful when a mark is used solely in intrastate commerce, as federal registration will not be available.

Maintaining Protection

Certain filings are required to maintain registration, including renewals and declarations that the mark is still being used. Trademark protection can also be lost if the mark is abandoned, improperly licensed, improperly assigned or becomes generic.

Enforcement of Trademark Rights

A business entity that uses its legal name as a mark may prevent another entity or individual from infringing upon that name.

Some business entities have set up trademark enforcement programs. These generally include the following:

- ▶ A trademark watch, which looks out for potential infringement by monitoring applications to register trademarks, state and county name records, and other sources
- ▶ Sending Cease and Desist letters to alleged infringers
- ▶ Filing lawsuits based on the improper use of the trademark

CONCLUSION

What's in a name? For a new corporation, LLC or other business entity a great deal. The owners will probably have spent a great deal of time, money, and effort choosing its legal name. Consequently, knowing the laws that govern and protect business entity names will go a long to ensuring that they are happy with their choice.